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Wm. H. Wood

Income Tax Law

Analysis and History

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Income Tax Law

ANALYSIS *and* HISTORY

Second Edition

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Anticipating many inquiries regarding the Income Tax Law, we have prepared this handbook. Herein is combined with the full text of the law an analysis of its practical operation and a resumé of the history of income taxation in this country and abroad, together with the regulations issued by the United States Treasury Department. Later rulings by the Treasury Department and decisions by the Courts will necessarily affect the law's interpretation and application. The analysis, therefore, has been expressed in general terms and is presented to the investing public in the belief that it will prove of interest and help.

Harris, Forbes & Co

November Twelfth
Nineteen Hundred
and Thirteen

Contents

	Page
Development of Income Taxation.....	7
Analysis and Comment.....	19
Text of Income Tax Law.....	63
Treasury Decisions	103

Development of Income Taxation

Income taxation is now an established part of the fiscal machinery of a majority of the leading governments in the world, including the United States, Great Britain, the German Empire, Austria-Hungary, Switzerland, Italy, Spain, Japan and various constituencies of the British Empire.

The beginnings of income taxation are found in a series of income imposts, which were inaugurated in most of the independent Italian cities in the fifteenth century. All taxation previous to this time had been, with local variations, purely a property tax, some consideration sometimes being given to the products of property. The downfall of these Italian towns, of which Florence was a typical example, and the feudal and aristocratic régime of the sixteenth century saw the downfall of the income tax and its disappearance from history until the end of the seventeenth century.

Early
History

A variant of the income tax next appeared in France in 1697. According to this law a tax was imposed on all people at a rate varying with their social position. Later the exigencies of war, and the heavy expense of maintaining the Louis XIV government demanded increased

France

government receipts and there was established a direct tax on incomes. This was continued until 1790 when the French Revolution swept away the income tax. Since then no income tax law has existed in France, although there is now before the French Senate an income tax measure, known as Caillaux's Bill, which has been passed by the Chamber of Deputies. It is largely based on the English law, but carries further the principle of differentiation. According to this a difference is distinguished between income accruing from investments and property and from actual salaries and wages, and a higher tax is usually imposed upon income accruing from the former. The maximum rate is 5%, and is applicable on incomes above 25,000 francs, and up to that amount each successive fraction of 5,000 francs pays 1% additional tax until the full 5% is reached.

England

The next step in the development of income taxation and its real inauguration in the modern sense occurred in England in 1799. The British Income Tax was the direct outcome of the war against France in the eighteenth and early nineteenth centuries. The year 1798 found British government finances in severe

straits. Consols had fallen from par to below 50, the Bank of England had suspended specie payment and large sums of money were needed for England's expenditures in the war against France. It was this condition which precipitated William Pitt's "triple assessment", one section of which provided for an assessment on all individuals in proportion to their income. An amendment of this section of the "triple assessment" resulted in creating a definite income tax law, and under it the amount collected rose to £6,000,000, in contrast with the £2,000,000 raised under the preliminary section. The bill was created purely as a war measure and was repealed when peace was made in 1802. It immediately went back into force, however, in 1803 upon the reopening of war. The new bill in 1803 definitely foreshadowed the system now existing in England, in that it was divided into a certain number of schedules, and in that the tax was imposed at the source of payment of the income. This new tax raised annually a sum of £16,000,000 and was in force until 1816, the end of the Napoleonic Wars. England's next adoption of the income tax occurred in 1842. The inauguration of comparatively free

trade, and the consequent shrinkage in customs duties necessitated some other means for raising government funds, which was provided through an income tax which was a practical duplicate of the act of 1803.

Two important additions to the income tax system were made in 1907 and 1910. In 1907 the so-called scheme of DIFFERENTIATION was adopted in which a difference was distinguished between an unearned and an earned income, that is, in general, incomes accruing from property and investments, and from salaries and other actual wages. In 1910 the Lloyd George Budget included the second important addition to the British income tax system, the scheme of GRADUATION. The scheme of graduation is simply the larger the income the higher the rate. As now operative, the British law imposes a tax on the minimum limit, £160, at the rate of nine pence on the pound. Then on all incomes from this minimum up to £3,000 the rate is nine pence on the pound up to the first £2,000 and one shilling on the pound on the balance. On all incomes in excess of £3,000 the general rate is now advanced to one shilling two pence on the pound. The income tax raises about £40,000,000, or

\$200,000,000, a year. One of the reasons for the success of the English law is the good judgment shown in the system of assessment and collection. The British income tax system has spread, with various modifications, to most of the British dependencies.

Income taxation found another and in some respects a different development in Germany. The beginnings of the income tax proper in Prussia date from 1812 when an income tax law imposed a duty of 5% on all incomes over the relatively small sum of 300 thalers. This was essentially a war measure and was repealed in 1814. In 1820 there was inaugurated a class tax very similar to that in vogue in France in the eighteenth century. The next development of the income tax in Germany occurred in the principalities of Hesse, Saxony, Bavaria and the free town of Bremen, all of which instituted a form of income tax prior to 1850. The final development of the income tax system in Germany came in 1891 when the Prussian Income Tax Law of that year was passed. This provides a minimum limit of 900 marks, and progressing from this seventy-five grades are distinguished, each paying a higher rate, the maximum rate being about

Germany

4%. With the enactment of the Law of 1891 there was established a system of rigorous investigation. The yield from the new tax law jumped to 115,000,000 marks per annum as against 79,500,000 marks per annum under the old system. The Prussian Law has found reflection in practically all the other constituencies of the German Empire, with the result that a central government income tax law is operative nearly everywhere in Germany. This central government tax of Germany, however, is only a portion of the income taxation. There are, in addition, taxes levied on income by nearly all local communities, with the result that there prevails substantially all over Germany a total income tax of from 10% to 13%. There exists too a business and produce tax, which in many instances brings about double taxation.

Other
European
Countries

The other principal income tax laws operated in Europe are in Switzerland, Austria, Italy and Spain. The chief feature of the Spanish act is the absence of its applicability to income accruing from land, this being reached by a separate land tax. The Italian law imposes the tax at the source of the income and includes the differentiation between the rev-

enues from investments and land, and from actual salaries, in which respect it resembles the English law. The law, however, is a comparative failure, due to the mode of collection and because of the enormity of the rate, totaling, as it does, about 20%. The government does not undertake the tax collection itself, but for the collection district submits the privilege of collecting the tax to public auction and the person or company submitting the lowest bid and proving the necessary responsibility is awarded the contract. The tax, therefore, is regarded as one to be evaded. In Austria, too, the income tax law has fallen below government expectations, due largely to the fact that it is unpopular with the public. In Switzerland income taxation has been under the direction of separate communities, not under the central government.

The income tax in the United States dates back to the Colonial period. In 1646 a law was passed by the Court of Assistants of the Massachusetts Bay Company whereby the produce of estates was taxed. In 1673 the Assembly of Rhode Island passed a similar bill taxing the profits of merchants and tradesmen, and an almost identical bill was passed

United
States

in New Jersey in 1684. These taxes were fundamentally not on income, but they deserve mention because they show the trend toward income taxation as opposed to a land or property tax. Laws imposing a tax upon the salaries of various professions, such as the law, medicine and the ministry, were passed in Pennsylvania, Delaware and Maryland shortly before and during the Revolutionary War. In 1777 Massachusetts passed a law assessing all tax-payers on the amount of money accruing from all business sources, and in some form or another this law spread to all of the New England States. This old Faculty Tax Law disappeared, however, from all the States before the end of the eighteenth century, with the exception of Massachusetts where it exists at the present day. As the law stands there today it is practically a dead letter, is not seriously enforced and applies principally to a few incomes in excess of \$2,000 per annum, filed by a few business and professional men in and about Boston.

The next development of State income taxation occurred in the second quarter of the nineteenth century. The period around 1835 saw the withdrawal of the government from the

field of internal improvement, and the inauguration on the part of the States of extensive and heavy expenditures. Consequently the financial depression of 1837 left the States to begin the early 40's under a heavy burden of State debt. The result was the imposition in several States of an income tax. In 1844 Pennsylvania imposed an income tax with a \$200 exemption. Evasion of the law, and no very serious attempt to enforce it, resulted in an exceedingly small return to the State, and the law was repealed in 1871. Maryland, Georgia, Louisiana, North Carolina, Virginia, Alabama and Florida passed income tax laws, none of which were successful in raising revenue. In all these States the tax was not enforced rigorously and the laws became practically nominal. They were repealed in Georgia and Alabama. In Louisiana the law is still extant, but has not been levied since 1899, when it yielded \$104.

At the present time income tax laws are operative in the following States: Wisconsin, Virginia, North Carolina, South Carolina and Oklahoma. Virginia has been the most successful of any of the States in raising revenue from an income tax, although its receipts from this tax in 1910 amounted to only \$106,909.

The latest inauguration of State income tax occurred in Wisconsin in 1911. This law has not been in operation long enough for a determination of its efficiency.

The enactment of the Underwood-Simmons Tariff Law marks the opening of the third period during which the people of the United States have had a Federal income tax. At the time of the War of 1812 a tax on income was proposed, but the suggestion was withdrawn when the peace of 1815 rendered it unnecessary. It was not until 1861, during the first administration of President Lincoln, that the first income tax law was placed on the statute books. The Stevens-Morrill Act of 1861 was modelled upon the proposed Act of 1813. Various amendments and revisions were made culminating in the new law of 1864, amended in 1865, in which a tax was imposed at the rate of 5% on all income from \$600 to \$5,000, advancing to 10% on all income in excess of \$5,000. On this basis it yielded the government annually about \$35,000,000. In 1867 the minimum exemption was raised to \$1,000 and the 10% tax on incomes in excess of \$5,000 was removed; as a result the revenue obtained from the income tax declined to \$14,000,000. Orig-

inally a war measure, the repeal of this income tax was expected and sought for by Congress as soon as possible. It was finally provided in 1870 to allow an amended law to be operative for the years 1870 and 1871, under which a flat rate of $2\frac{1}{2}\%$ was imposed on all incomes above \$2,000.

The second period of income tax operation was in 1894, and was inaugurated as a part of the Wilson Tariff Law of that year. The new law was largely modelled after the statutes of the Civil War period; it provided a tax of 2% on the net incomes of corporations, companies and business associations not including partnerships, and upon the incomes of individuals in excess of \$4,000. There was no differentiation between earned and unearned income, and there was no attempt to collect the income tax at the source, in which latter respect it differed radically from the well-established British Income Tax Law. The Law of 1894 had no sooner gone into effect than the fight on its constitutionality began to be waged. The test case was that of Pollock against the Farmers' Loan and Trust Company which after a second trial was declared by a divided court to be unconstitutional. At the first trial certain im-

portant provisions of the statute were decided to be unconstitutional, but by reason of a division of four to four the Court was unable to determine the constitutionality of the balance of the statute. Accordingly the entire subject had to be reopened and argued for a second time, with the result stated. The basis of the successful attack against the law was Section 2, Article 1 of the Federal Constitution, which provides that direct taxes shall be apportioned among the several States.

The next appearance of the income tax was preceded by a Constitutional Amendment which was adopted as follows: "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." This Sixteenth Amendment became a part of our organic law in February, 1913, after more than three-fourths of the States had approved the change. On April 7th, 1913, the income tax bill was introduced in the House of Representatives, and the so-called Underwood-Simmons measure, which is modelled somewhat closely after the British Law, was approved by President Wilson on October 3, 1913.

Analysis and Comment

The Underwood-Simmons Tariff Law including the Income Tax Section was approved on the third day of October, 1913, became effective on the following day, and applies to income which has accrued on and after the first day of March of the same year.

Representative Cordell Hull, of Tennessee, the original draftsman of the measure, is reported to have said that to any person "who keeps familiar with his business affairs during the year to the extent that at its end he knows with reasonable accuracy the amount of his aggregate annual profits, the matter of executing his tax return will be both simple and convenient." Whether or not this be true it is certain that ignorance of the law is no defense and that the penalties of the act will be imposed for failure to comply with its provisions. Notice of assessment cannot be awaited. A person subject to tax must take the initiative. The Treasury Department, however, is charged with the administration of the statute and its regulations and rulings, while not necessarily final, simplify compliance with the law. Such regulations and rulings, a number of which

have already been announced, may be expected from time to time.

Persons
Subject
to Tax

In general terms it may be said that a basic or normal tax of one per cent. is levied upon the annual net income exceeding a specific exemption or minimum which accrues:

- (a) to every citizen of the United States, whether residing at home or abroad;
- (b) to aliens residing within the United States; and,
- (c) in some instances, to non-resident aliens.

A surtax, or so-called additional tax, ranging from one to six per cent., is levied upon the larger amounts of net income accruing to at least the first two classes of persons mentioned.

The normal tax of one per cent. is also levied upon the net income of every corporation, joint-stock company, association, and insurance company organized in the United States, and to a limited extent upon the net income of similar organizations of other countries.

Methods
of Col-
lection

Two methods are provided for the collection of personal taxes, viz.:

- (a) deduction and payment at the source of income; and,
- (b) direct from the taxpayer on the basis of personal return.

The additional tax in every instance is assessed on the basis of personal return and collected direct from the tax-payer. Whenever possible the normal tax is collected at the source, but personal return is required on the balance of the income on which the tax has not been thus collected. Collection at the source, however, did not become operative until November 1, 1913, so that it will be necessary for tax-payers to make personal return on all income accrued from March 1, 1913, (the day from which income is taxed) to and including October 31, 1913. All items ordinarily deducted at the source will, therefore, be reported in the usual form of personal return for the eight months of 1913, March to October, inclusive.

Net income of individuals is computed for each calendar year, except for the year 1913 when the tax will be levied on the amount accrued on and after the first day of March, after allowing five-sixths of the deductions referred to hereinafter. After the close of each calendar year, which is the Tax Year, and on or before the first day of March succeeding, the person subject to tax (and in some instances non-taxable persons) shall make return of his net in-

Tax Year

come to the collector of internal revenue. Notice of the amount of tax assessed will be given by the collector on or before the first day of June, and the tax must be paid not later than the thirtieth day of that month.

Specific
Exemption

There shall be deducted from the net income of each person a specific exemption of \$3,000, plus \$1,000 additional if the person making the return be married and live with husband or wife. The statute provides that "in no event shall this additional exemption of \$1,000 be deducted by both a husband and a wife: Provided, that only one deduction of \$4,000 shall be made from the aggregate income of both husband and wife when living together." The provision that the additional exemption of \$1,000 shall not be deducted by both husband and wife is without special significance. It probably crept into the final bill from an earlier draft. The Treasury Regulations say: "Where a husband and wife live together and only one of them has an annual income liable for the normal tax of one per cent., then the husband or wife who has the income shall make the return and pay the said tax, and may claim and deduct an exemption of \$4,000. But if a husband and wife live together and each has an an-

nual income liable for the normal tax of one per cent., then in that event they shall make a separate return and the \$4,000 exemption allowed to a husband and a wife when living together may be claimed and deducted by either the husband or wife, as they may mutually agree (but not by both separately), or the said exemption shall be pro-rated between them in proportion to their net income." Reference is made hereinafter to this deduction, whether of \$3,000 or \$4,000, as the specific exemption.

The normal tax of one per cent. is imposed upon individual net income exceeding the specific exemption, after allowing for specified deductions and other exemptions. The additional tax, ranging from one to six per cent., is imposed upon all taxable net income of individuals exceeding \$20,000. This additional tax is graduated and levied as follows:

Rates
of Tax

1%	$\left\{ \begin{array}{l} \text{on} \\ \text{income} \\ \text{exceeding} \end{array} \right.$	\$20,000	$\left\{ \begin{array}{l} \text{but} \\ \text{not} \\ \text{exceeding} \end{array} \right.$	\$50,000
2%		50,000		75,000
3%		75,000		100,000
4%		100,000		250,000
5%		250,000		500,000
6%		500,000		

Added to the normal or one per cent. tax, the total range is thus from one to seven per cent.

To illustrate the method of calculating the tax on net income, (and disregarding the usual exemptions, deductions and special provisions of the statute) the example may be taken of a man entitled to the \$4,000 specific exemption, whose net income for the year amounts to \$100,000:

Net Income	\$100,000
Specific Exemption	4,000
	<hr/>
Amount of Taxable Income.....	\$96,000
Normal Tax:	
1% on \$96,000 (i. e., net income of \$100,000 less \$4,000 specific exemption)	960
Additional Tax:	
1% on \$30,000 (i. e., amount exceeding \$20,000 and not exceeding \$50,000)...	300
Additional Tax:	
2% on \$25,000 (i. e., amount exceeding \$50,000 and not exceeding \$75,000)...	500
Additional Tax:	
3% on \$21,000 (i. e., amount exceeding \$75,000 and being less than \$100,000)	630
	<hr/>
TOTAL TAX	\$2,390

The view prevails in some quarters that the specific exemption may not be deducted from the annual income accruing to an individual in computing his net income subject to the additional tax. Under this construction the last item in the tabulation above would be 3% Ad-

ditional Tax on \$25,000, i. e., \$750, making a total tax of \$2,510. Should the Treasury Regulations yet to be issued accept this latter view, which is less favorable to the tax-payer, the Courts may be called upon to interpret this phase of the statute. This view seems to overlook the provision of Subsection D that "the said tax shall be computed upon the remainder of said net income of each person subject thereto," namely, "the net income of each of said persons" after the deduction therefrom of the specific exemption of \$3,000 or \$4,000 mentioned in Subsection C. This would seem to mean that the tax, either normal or additional, is to be computed only upon the net income after the deduction has been made.

At the end of this analysis is given a table which roughly indicates the amount of tax imposed upon net income ranging from four thousand dollars to one million dollars.

Disregarding for the moment the exemptions and deductions which are allowed by the statute, the net income of individuals shall include gains, profits and income derived from:

Taxable
Income

- (a) Salaries, wages, or compensation for personal services of any kind, in whatever form paid;

- (b) Professions or vocations;
- (c) Business, trade, commerce or sales;
- (d) Dealings in property, real or personal; ownership or use of or interest in real or personal property;
- (e) Interest, rent and dividends;
- (f) Securities;
- (g) Transaction of any lawful business carried on for gain or profit; and,
- (h) Every other source including the income from, but not the value of, property acquired by gift, bequest, descent, etc.; the proceeds of life insurance policies, including endowment and annuity contracts, shall not be regarded as income.

Computing
Normal
Tax

Of the various deductions and exemptions which are allowed, there are three principal classes, viz.: (1) the specific exemption of either three or four thousand dollars; (2) deductions allowable from income in computing the net amount subject to the normal tax; and, (3) income exempt from tax. The first class has already been mentioned. The deductions which the individual may make in computing net income subject to the normal tax of one per cent. are:

- (a) Necessary expenses of carrying on any business; it is specifically provided that personal, living or family expenses shall not be deducted;

- (b) Interest paid on indebtedness;
- (c) Federal, State, county, school and municipal taxes, not including taxes assessed against local benefits;
- (d) "Losses actually sustained, * * * incurred in trade or arising from fires," etc., and for which the individual has not been compensated by insurance or otherwise;
- (e) Debts ascertained to be worthless and charged off;
- (f) Reasonable allowance for depreciation of property employed in business, not exceeding in the case of mines 5% of the gross value of the output at the mine; no deduction, however, to be made for expense of restoring property on which allowance is or has been made; nor shall the cost of new buildings, permanent improvements, etc., be deducted;
- (g) Dividends or net earnings of a corporation or similar organization which is taxable upon its net income; this applies to dividends and net earnings of domestic corporations and others and of similar organizations of other countries doing business in the United States; (It should be here noted that such income may be wholly or in part subject to the additional tax in the hands of individuals whose taxable income exceeds \$20,000.)
- (h) Income upon which the tax has been deducted at the source.

It is stated in the Treasury Regulations that money or other things of value disposed of by gift, donation or endowment shall not be deducted by either persons or corporations.

Non-
taxable
Income

The income which is particularly designated as being exempt from tax is:

- (a) Interest upon "the obligations of a State or any political sub-division thereof, and upon the obligations of the United States and its possessions." (The Treasury Department refers to such obligations as "bonds of States, counties, cities or other political sub-divisions of the United States," and further as "the obligations of a State, county, city or any other political sub-division thereof, and upon the obligations of the United States or its possessions.")
- (b) The compensation of President Wilson during the present term; also, the compensation of the Judges of the Federal Courts in office on October 3, 1913;
- (c) The compensation of officers and employees of a State or any of its political sub-divisions in so far as such compensation is not derived from the Federal Government.

Presumably no part of this income need be reported in the annual return inasmuch as the act provides that it shall be excluded in computing net income. At least no part of the income from so-called Municipal bonds need be reported, according to an informal statement by the Treasury Department. They have definitely ruled that coupons and orders for registered interest for such bonds need not be accompanied by the ownership certificates, referred to hereinafter, which are ordinarily used

in collecting interest. The Department provides, however, that if the coupons fail clearly to show on their face whether they are issued "by the United States or any political subdivision thereof, * * * ownership certificate should be required."

These exemptions have been allowed by Congress in large part if not entirely for constitutional reasons, every effort having been made to come well within the law and particularly the rulings laid down in the case of Pollock against the Farmers' Loan & Trust Co. in which the previous income tax law was declared unconstitutional. The taxation of municipal bonds, for instance, is generally considered a burden upon the municipality itself, and is thus deemed an unjust imposition.

Municipal
Bonds

The fear that large estates, individuals and others would incorporate in order to be liable for only the one per cent. or normal tax, and thus free themselves from the additional tax, is understood to be responsible for the Senate amendment that the additional tax shall be levied and paid by individuals on their share of undivided or undistributed profits of a corporation or similar organization, which was

Undivided
Profits
Taxable

formed or fraudulently availed of for the purpose of avoiding the tax by means of allowing gains and profits to accumulate, instead of being distributed. (Only the additional tax is thus referred to because the normal tax would be collected directly from the corporation on the basis of its net income.) The Secretary of the Treasury is given summary powers of investigation and, apparently, of decision as to whether or not the accumulation of profits had been with fraudulent intent. In this connection, the statute makes the unusual provisions that, upon request, the corporation or other organization shall furnish the names of the individuals who would be entitled to its profits if they were distributed, and further, that "the fact that any such corporation, joint-stock company, or association is a mere holding company, * * * shall be prima facie evidence of a fraudulent purpose to escape such tax."

Non-
Resident
Aliens

Referring further to the persons liable under the statute, it is clear that everyone may be subject to tax who either resides within the United States or is a citizen of this country residing elsewhere. In addition, a tax is levied "upon the entire net income from all property

owned and of every business, trade, or profession carried on in the United States by persons residing elsewhere." It has been the reported opinion of some persons that the interest on bonds of American corporations would be taxed under this provision when held by a non-resident alien, as for instance, by a resident and citizen of France. The Treasury Regulations, however, state that the normal tax "will not be deducted from the income which may be derived from interest on bonds, mortgages, equipment trusts, receivers' certificates, or other similar obligations of which the bona fide owners are citizens of foreign countries residing in foreign countries." In this position, the Department is supported by the Courts holding that it is a general provision of law that the situs of bonds or other personal property for purposes of taxation is the same as the residence of the owner. In this view, such bonds are not property owned and taxable within the United States. The regulations provide the coupons or orders for registered interest shall be accompanied by the proper certificates stating in substance that the interest is payable without deduction of the

tax by reason of its being due a non-resident alien. A special ruling has been made that this certificate may be signed "either by the owner himself (herself, or themselves,) or in behalf of the owner by a reputable bank or bankers, or other responsible collecting agency, certifying to the ownership of the bonds and giving the name and address of the bona fide non-resident and alien owners," and further that, "When such certificate is thus attached, the normal tax of 1 per cent. on such coupons or interest orders need not be withheld at the source by the debtor or collecting agency."

Net income from property owned and business carried on in the United States by persons residing elsewhere shall be computed, according to the statute, on the basis prescribed in Subsection B and that part of Subsection G which relates to the computation of the net income of corporations, joint-stock, and insurance companies of foreign countries, in so far as applicable. Subsection B refers to the items comprising the entire net income of a taxable person and the deductions allowed such a person in computing his income subject to the normal or one per cent. tax. Subsection G refers to

the one per cent. tax to be paid on corporate net income.

It will be noted that the deductions from income, such as the necessary expenses of a business, interest paid on indebtedness, etc., are allowed only in the computation of net income subject to the normal tax of one per cent. How the net income subject to the additional tax is to be computed is referred to as one of the enigmas of the measure. Fairness would seem to demand that all the deductions should be allowed in the case of the additional tax, with the exception only of stock dividends and income upon which the tax has been paid at the source. Dividends on stock would be deducted only in the case of the normal tax because the corporation practically pays that tax on behalf of the individual stockholder who himself must pay any additional tax due thereon. Income upon which the tax has been paid at the source would be allowed as a deduction only in the case of the normal tax because that is the only tax deducted at the source. But it is not clear why the necessary expenses of carrying on a business, interest on indebtedness, losses sustained, etc., should not be deducted in computing net income subject to the additional tax. There is

Comput-
ing Addi-
tional
Tax

reason for assuming that Congress did not intend to allow these deductions. On the other hand, the act specifically provides that the additional tax shall be paid on "net income," and it can hardly be assumed that the items enumerated as deductible in computing the normal tax might not be deducted with equal propriety in arriving at the net income subject to the additional tax. It was contended on the floor of the Senate that Congress in this statute exceeded its powers in defining "net income." The regulations yet to be announced by the Treasury Department will probably throw some light on this subject.

Collection
at
Source

To outline in a general way the plan of collection at the source (assumption of the tax by a corporation being disregarded) it may be said that corporations and others having the control or payment of fixed or determinable annual gains, profits, or income are required to deduct the normal tax of one per cent. from the payment made to the person entitled to receive the same, as, for instance, salary paid an employee. Such corporations and others deducting the tax are made personally liable therefor and are required by the statute to make a return of the tax thus collected which shall,

in every possible case, recite the name and address of the person whose tax has been thus deducted. This deduction, except as noted below, is not made at the source unless the income due from one corporation or other concern to an individual tax-payer amounts to more than \$3,000 for the year. Salaries and rents, for instance, amounting to \$3,000 or less per annum, would not be deducted at the source. In the case, however, of interest due on the indebtedness of domestic corporations and interest or dividends due from foreign countries or foreign corporations not subject to the terms of this act, the tax is deducted prior to payment to the owner irrespective of the amount.

The collection of the tax on interest accruing on the indebtedness of corporations of this country is relatively simple and fits in with the general administrative provisions of the law. To collect the tax on interest or dividends which are not payable in this country and which are due from foreign countries or from the foreign corporations mentioned above, Congress made the special provision that the tax shall be deducted from coupons, checks or bills of exchange in payment for such interest

Foreign
Collections

or dividends, and provided further that all persons, corporations and others collecting such foreign payments shall obtain a license from the Commissioner of Internal Revenue, and shall be subject to such regulations as the Commissioner prescribes in order to enable him to ascertain and verify the amount of income tax due. It was originally contemplated by the Treasury Department that application for such license should be made before November 1, 1913, and when so made and accompanied by a proper surety bond would entitle the applicant to make such foreign collections until February 1, 1914, before which time the regular license presumably would have been issued by the Department. It was informally announced, however, that persons who had merely made application for license before November 1, 1913, might make such collections for the month of November. Amended regulations governing such collecting agencies may be announced before December 1, 1913.

Any person, firm or corporation collecting such foreign payments without a license or without complying with the requirements of the Commissioner of Internal Revenue shall

be guilty of a misdemeanor, and for each offense shall be fined not to exceed \$5,000 or imprisoned for not to exceed one year, or both.

The manner of collecting the tax at the source has been explained somewhat by the first two installments of Treasury Regulations. The act left it uncertain as to who constituted "the source." For example, in the case of a corporation bond coupon it was undetermined if the debtor corporation, its fiscal agent if it had such, a bank to whom the coupon might be originally presented for payment or collection, or some other corporation or agency were the source and thus responsible to the Government for the retention of any normal tax due. In this connection the Treasury Department has ruled that "the source" shall be the debtor, or if the debtor be located outside of the United States, its paying agent within this country. Any debtor, however, may appoint paying or fiscal agents to act for it in the collection of the tax upon filing with the collector of internal revenue for its district a notice of such appointment.

The
Source

Provision is made, with certain exceptions, that whenever coupons or orders for registered

interest are not accompanied by the ownership certificates (referred to below) the first bank, banking firm or other collecting agency becomes "the source" and shall deduct any normal tax due. The amount of this tax shall be paid to the Government and "the source" shall attach to the coupons or orders for registered interest its own certificate giving among other particulars the name and address of the owner or person presenting the same or stating that the name or address is unknown. In the case of coupons, checks or bills of exchange representing interest or dividends due from foreign countries or foreign corporations and others not subject to the terms of the act, "the source" is declared to be the person, firm or corporation first receiving any such foreign item for collection or otherwise.

**Certifi-
cates.**

The Treasury Department has prescribed ownership certificates to be used by individuals and others in the collection of bond coupons and orders for registered interest, one certificate to be filled out for each separate issue of bonds. The exact forms to be used by individuals, partnerships, corporations and others will be found in the Treasury Regulations.

The Department originally provided that for the first sixteen days of November, 1913, coupons of corporation bonds did not need to be accompanied by the usual ownership certificates, provided the person, firm or corporation accepting such coupons for collection or payment would certify the names and addresses of the owners, if known. In lieu of such temporary certificates, the owners of the bonds on or before February 1, 1914, may present to the respective debtors the proper certificates. According to the Department, the debtors "may" thereupon return any sums withheld to which the owners of such bonds may be entitled.

As has been stated, the statute provides that for the year 1913 only five-sixths of the deductions allowable for a calendar year shall be made. The Treasury Department has found it necessary to point out particularly that in the case of the specific exemption, the amount for 1913 is \$2,500 rather than the usual \$3,000 or \$3,333.33 rather than the usual \$4,000. The same rule applies to deductions allowed in computing income subject to the normal tax, as prescribed in Subsection B.

Deductions for
1913

Income
Due Cor-
porations

It is reasonably clear that the normal tax is not to be deducted at the source upon income due corporations and others whether taxable or exempt from tax under the provisions of Subsection G of the statute. The Treasury Department has provided in connection with interest on corporation bonds and similar obligations that such interest shall be paid in full if the coupons or orders for registered interest are accompanied by a certificate setting forth the relevant facts.

Partners
Individu-
ally
Liable

Members of a partnership are liable individually for their share of the firm's profits, and the returns shall be made by the individuals as such. Each partner, however, is liable for his proportion of all the firm's profits, whether divided or undivided, and his return shall include such. Despite this fact, the Treasury Regulations have provided for deduction of the tax at the source on corporate bond and mortgage and similar interest which is due a partnership. A certificate of ownership shall be attached to coupons or interest orders, naming among other particulars the members of the firm and their respective addresses. The Department further provides that "any member of a partnership, who is entitled to a deduction

(under Paragraph C, Section II. of the Income Tax Law) of his pro rata share of the tax which may be withheld at the source on interest on bonds owned by his co-partnership, as above, may claim such deduction or allowance when he shall make his individual tax return for the year." Paragraph or Subsection C refers only to the specific exemption. Subsection B, which allows deductions for such items as interest on indebtedness, taxes, losses sustained during the year, etc., is not mentioned, and would thus seem to leave open the matter of a refund to the individual partners of any tax deducted on corporate interest, which interest, i. e., income, would have been offset by the deductions authorized to be made in Subsection B.

The law provides that the Commissioner of Internal Revenue may call upon a partnership for a statement of its profits and a list of its members who are entitled thereto.

The Treasury Regulations provide that the so-called source "should require" the persons tendering coupons or orders for registered interest on corporate bonds and similar obligations satisfactorily to establish their identity.

Names of
Bond
Holders

The Department, of course, wishes to obtain the names of owners of corporate bonds and has chosen ownership certificates as a means of accomplishing its purpose. It seems an open question, however, to what extent the Treasury Officials either have required or may require the names and addresses of persons to whom corporate interest is due. The view is reported to be held by some persons that corporate interest should not be paid even though the normal tax be deducted unless the coupons or orders for registered interest be accompanied by a certificate stating the name and address of the owner. This position seems hardly tenable.

Collection
on Rent,
Etc.

Relative to the collection of the tax at the source on income other than interest on corporate bonds and similar obligations, the Treasury Regulations provide that the normal tax shall be withheld by the debtor or its agent authorized to make such deduction and payment to the Government. Some of those affected by this provision are mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents and employers having the disposal or payment of interest (except of the kind repre-

sented by bond interest) rents, royalties, salaries, etc. No other person or organization shall be required to deduct the tax on the same income if such person or organization shall file with the collector of internal revenue in his or its district, a statement declaring among other particulars the name of the person who has withheld the tax at the source. A debtor who, monthly or periodically during the year, pays income in the form of rents, salaries, etc., shall not withhold the tax until such time as the payments in the aggregate shall exceed \$3,000. For the months November and December of 1913 the tax shall not be deducted in any event until the amount of income thus paid to a person during those months shall exceed \$3,000.

The corporation or other person, as has been stated, makes a report or return for the individual tax-payer of any tax which it has deducted in his behalf at the source. The individual, if he have a net income of \$3,000 or over, is required under oath or affirmation to make a return to the collector of his gross income and any deductions which may be allowed, except that:

Individual
Return

- (a) Persons liable for the normal tax only, on their own account or in behalf of another,

shall not be required to make return of the income derived from dividends or net earnings of corporations and others subject to tax on their net income; and,

- (b) Any person for whom return has been made and the tax paid, or to be paid as aforesaid, shall not be required to make a return unless such person has other net income, but only one deduction of \$3,000 shall be made in the case of any such person.

The latter exception presumably refers only to income on which the tax has been deducted at the source. It may be presumed also that a return would be required of a person whose taxable net income exceeded \$20,000 even though such income were derived from interest on corporate indebtedness, rents, etc., on which any normal tax due had already been deducted at the source.

The statute allows the inference, although it is not so stated definitely, that a return need not be made by a person liable only for the normal tax if his net income be derived entirely in the two ways referred to in (a) and (b) above, i. e., from dividends and from income on which the tax has been deducted at the source.

Farmers
and
Others

The Treasury Department has ruled that the income of farmers, merchants, agents compen-

sated on the commission basis, lawyers, doctors, authors, inventors and other professional persons, shall be reported by personal return providing their total income from all sources exceeds \$3,000. The Department cites this example:

“When a lawyer receives a retainer of \$5,000 as a special fee, a deduction therefrom shall not be made by the payer, but when the lawyer receives a retainer of \$5,000 per annum, and the exemption claimed is \$3,000, \$2,000 of such income would be taxed and the tax retained at the source or if his exemption claimed should be \$4,000, \$1,000 of such income would be taxed and the tax thereon withheld at the source.”

Applica-
tion for
Exemp-
tion

Every person making a return will receive the benefit of the specific exemption of either \$3,000 or \$4,000, if, (a) he apply for that exemption to the person who would withhold the tax, or, (b) if he apply to the government for a refund of the tax after it has been paid. Other considerations being equal, a taxable person would naturally prefer to obtain immediately the benefit of the specific exemption and thus avoid the necessity of applying to the Government for a refund.

To obtain the benefit of either part or all of the specific exemption allowed, two general methods are provided. The operation of the

first may be explained by the following example:

EXAMPLE:

A man who is entitled to the \$4,000 specific exemption, has a salary of \$3,500. His employer is required to deduct the normal tax of \$35 from his salary and pay it to the Government unless the employee file with his employer a claim for such specific exemption at least thirty days prior to the first day of March. In that case the employer does not retain the tax or forward it to the Government, but pays it directly to his employee.

The statement made to the employer need not be under oath, but a penalty of \$300 may be imposed for the making of any false statement.

The individual ownership certificate to be used in connection with bond interest provides the second method of obtaining the benefit of the specific exemption. The last paragraph of the certificate reads:

"I (do) now claim, with respect to the income represented by said interest, the benefit of a deduction of \$. allowed under paragraph C, section II of the Federal Income Tax Law, the total exemption to which I am entitled thereunder being \$"

To illustrate the manner of filling out this paragraph:

If the certificate be attached to coupons representing \$1,000 in bond interest and if the person owning such coupons be entitled to a specific exemption of \$4,000 for which he wishes to apply, a deduction of \$1,000 would be asked and the total exemption would be stated to be \$4,000. Coupons accompanied by a certificate otherwise correct and containing such a statement would be paid in full. If the certificate were attached to coupons amounting to more than the specific exemption claimed, the deduction asked would not exceed the amount of such exemption. In any case the interest would be paid in full to the extent of the specific exemption properly claimed.

Where the interest to be paid is registered, the same certificate shall be used whenever exemptions are claimed except that it shall be filed with the debtor at least five days before the due date of such interest.

If a person be entitled to deductions from his income on account of losses incurred during the year, interest on his indebtedness, etc., he will receive the benefit of such deductions if, thirty days prior to the first day of March, he file a statement (not under oath) with either one of the following persons:

Applica-
tion for
Deduction

- (a) The corporation or other person deducting his tax at the source; (such a statement is filed with the collector by the corporation, employer or other person at the time the tax thus deducted is paid to the Government)

(b) The collector of the district in which the person resides or transacts business.

The statement of deductions asked shall embody or at least be accompanied by a return of the entire gross income of such person received from all sources, and an enumeration of deductions asked.

Guardians
and
Others

This return of individual net income and deductions claimed shall be made not only by every taxable individual of lawful age, but also by guardians, trustees, executors, administrators, receivers and others on behalf of persons for whom they act in a fiduciary capacity. Such a report need only include income in their custody or control as guardians, trustees and others, and if two or more parties act jointly, the report of one shall be sufficient. The collector in the district where the guardian or such other person resides or where the will or other instrument is filed, is authorized to receive the return.

Absentees
and
Others

A person subject to the tax who is absent from the United States or who is unable to make a return because of being a minor, seriously ill, or insane, may have his return or application for exemption or reduction of the tax made by the person required to withhold

and pay the same. The person withholding the tax, however, must under oath state that he has sufficient knowledge of the affairs and of the property of the person for whom he acts to make a complete and accurate return, and must assume full responsibility therefor.

A person neglecting to make his return at the proper time on account of "sickness or absence" may be allowed as much as thirty days additional time if the collector so desires.

Should the collector or his deputy have reason to believe that the amount of the income noted in the return of an individual is understated he shall notify the person of that fact. The latter is then called upon to show cause why the amount of his return should not be increased. Apparently the collector is without power to increase arbitrarily the return except "upon proof of the amount understated." This would seem to place the burden upon the collector. If the tax-payer be dissatisfied with the decision of the collector he may submit the case with all the papers to the Commissioner of Internal Revenue, whose decision on the net amount subject to tax is stated to be final.

Collector
May
Increase
Return

A large proportion of the outstanding corporate mortgages contains a provision in sub-

Bond
Interest.

stance that the principal and interest of the bonds secured thereby shall be paid without deduction for any tax or taxes which the company may be required or permitted to pay or retain therefrom under any present or future law of the United States of America, etc. The weight of published opinion has been that this makes the corporation liable for the normal tax of one per cent. The act provides that no provision of the law shall be construed "to release a taxable person from liability from income tax," and, further, that "no contract entered into after this act takes effect (shall) be valid in regard to any Federal income tax imposed upon a person liable to such payment." Questions in this connection are quite certain to be brought to the attention of the Courts, and it will only be after authoritative decision on the question that the precise rule which will prevail can be stated. In the meantime, many corporations are paying their bond interest without deduction of the normal tax, irrespective of whether the so-called tax exemption clause is considered by them to apply to the income tax.

Corporate
Net
Income

It has already been stated that the normal tax of one per cent. is levied on the net income

of every corporation, joint-stock company, association and insurance company organized within this country. The same tax is levied upon the net income of similar organizations of other countries which is derived from business done and capital invested within the United States. The additional tax is never directly levied on income in the hands of the corporation or other such organization, but net income in the form of dividends and undistributed earnings is subject to the additional tax in the hands of taxable shareholders or owners whose taxable net income exceeds \$20,000 for the year. The one per cent. tax thus imposed by the statute is the same as that levied by the Corporation Excise Tax Law of 1909, now repealed but re-enacted in much the same form as a part of this statute. The law of 1909, however, allowed a deduction of five thousand dollars from net income, whereas the present statute allows no such exemption. The present law also requires the dividends received by one corporation from another corporation to be included in the statement of the amount of gross income received. As there is no provision for the deduction of such amount in ascertaining the net income of the holding com-

pany subject to tax, the dividends thus received are in effect subject to a double tax inasmuch as they are a part of the net earnings of another corporation on which the one per cent. tax has already been paid.

Corporate
Tax
Year

Corporations and similar organizations are taxable for the calendar year, and shall make their returns on or before the first day of March succeeding. Notice of the assessment of tax will be given by the collector on or before the first day of June succeeding, and the tax shall be paid not later than the thirtieth day of that month. A corporation has the option of choosing as the close of its fiscal year the last day of any month, and if it be other than the last day of December the return and payment of the tax shall be at relatively the same number of days after the close of the tax year so chosen. Within thirty days after the end of such tax year the corporation shall notify the collector of its closing date.

Under an amendment of the former excise tax law, corporations will be assessed on income accrued to March 1, 1913, and under the present statute on and after that date. Only one return for the year is required.

The following organizations are affirmatively declared to be non-taxable:

Non-Taxable
Organizations

- (a) Labor, agricultural, or horticultural;
- (b) Mutual savings banks not having a capital stock represented by shares;
- (c) Fraternal beneficiary societies, etc., operating under the lodge system for the exclusive benefit of the members of a fraternity operating under the lodge system and their dependents;
- (d) Domestic building and loan associations;
- (e) Mutual benefit cemetery associations;

The following are also declared to be non-taxable if no part of their net income accrues to any individual:

- (f) Exclusively religious, charitable, scientific or educational corporations or associations;
- (g) Business leagues, chambers of commerce, boards of trade, and civic leagues operated for social welfare and not organized for profit.

The existence of contracts between the City of New York and the Interborough Rapid Transit and the Brooklyn Rapid Transit Companies for the construction, operation and acquisition of transit lines, was probably responsible for the provision that income accruing to

Municipal
Income

a State, municipal corporation, or other governmental agency from public utilities or "any essential governmental function" shall be non-taxable. This exemption is made broad enough to apply to that part of the income to which such governmental agency may be entitled under such contract from public utilities which are acquired, constructed, operated or maintained by another person or corporation, if the contract in question antedates the passage of this law, namely, October 3, 1913.

Return
and
Deductions

A corporation or similar organization is required to make an annual return or statement under the oath or affirmation of its president, vice-president or other principal officer, and its treasurer or assistant treasurer, showing its gross and net income, and other financial facts, all of which are recited in the following tabulation, (a) to (h) inclusive. In arriving at the amount of net income subject to tax the gross income shall be subject to the deductions which are substantially set forth in the sub-divisions (d), (e), (f) and (g):

- (a) Paid-up capital stock outstanding, or if no capital stock, its capital employed in business;
- (b) Bonded and other indebtedness;

- (c) Gross income from all sources;
- (d) Proper maintenance and operation charges paid out of earnings, stating separately rentals and any such payments required for the continued use or possession of property;
- (e) Losses actually sustained and not compensated by insurance or otherwise, and reasonable depreciation of property; reasonable depreciation in the case of mines shall not exceed five per cent. of gross value of output at the mine;
- (f) Interest accrued and paid on its bonded or other indebtedness; interest, however, cannot be deducted on an amount of indebtedness exceeding one-half of the sum of its interest-bearing indebtedness and its paid-up capital stock at the close of the year; if there be no capital stock the deduction on account of interest paid on indebtedness shall not exceed the amount of capital employed in the business.

In the case of banks and similar institutions, deduction may be made of interest paid "on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness."

The total interest on indebtedness wholly secured by collateral subject to sale may be deducted. (This interest item is not specially recited as one to be included in the annual return, but the Treasury Department will probably make provision for it in the blanks to be furnished.)

When a corporation covenants that its bonds, notes, etc., shall be free from income tax, any tax paid by the corporation shall not be deducted;

- (g) Taxes paid during the year imposed under the authority of the United States or of any State or Territory thereof, or of any foreign country; (This provision will probably be construed to be broad enough to include any political sub-division of a State or Territory.)
- (h) Net income after making the authorized deductions.

Foreign
Corpora-
tions

The statute recites separately the deductions which may be made by foreign corporations and similar organizations, as well as the items which shall be included in their annual returns. There is no effort, as has been stated before, to tax any part of the income of foreign corporations on their business done and capital invested outside of the United States, and their returns and deductions are thus made on the basis of business done and capital invested within this country. Excepting in this particular just mentioned the principal items of difference between their annual returns and deductions and those of similar organizations of this country are the following:

- (a) Foreign corporations are not necessarily allowed to deduct the total interest on indebtedness secured by collateral subject to sale;
- (b) No deduction is allowed for taxes paid except those imposed under the authority of the United States or of any State or Territory thereof.

Special reference is made to insurance companies and their annual returns and allowable deductions. These are, in the cases of both domestic and foreign companies, substantially the same as for the usual corporations. The statute provides, however, that all insurance companies may deduct from their gross income whatever addition is required to be made to reserve funds, and the sums other than dividends paid on policy and annuity contracts. In the case of assessment insurance companies "the actual deposit of sums with State or Territorial officers as additions to guarantee or reserve funds" shall be considered reserve funds and thus deductible. The statute further provides, that:

The premium deposits returned to policy holders by mutual fire insurance companies shall not be returned as income; such deposits, however, as are retained by the companies along with all other gross income shall be returned as income if they be retained for any purposes other than the payment of losses, expenses, and re-insurance reserves;

Mutual marine insurance companies may deduct from their gross premiums collected any

premiums returned to policy holders and amounts paid for re-insurance;

Life insurance companies shall not return as income any premiums received within the year and either repaid or credited to policy holders, or credited as an abatement or reduction of premiums due.

General
Penalties

The statute provides a number of penalties which appear in some cases to be duplications, but the proper authorities will doubtless determine the necessity or advisability of imposing one or more for given offences.

A person refusing or neglecting to make his return at the proper time shall be liable to a fine of not less than \$20, nor more than \$1,000. A person making a fraudulent return with the intention of defeating or evading his assessment shall be guilty of a misdemeanor and shall be fined not exceeding \$2,000, or be imprisoned not exceeding one year, or both if the court so decides, and shall have charged against him the costs of prosecution. The penalty of from \$20 to \$1,000 is imposed upon a corporation or similar organization if it neglect or refuse to make a return of any income deducted by it at the source; and an officer of a corporation making a fraudulent return shall be guilty

of a misdemeanor and shall be fined not to exceed \$2,000, or imprisoned not to exceed one year, or both in the discretion of the court, and shall pay the costs of prosecution.

If a taxable person or corporation fail to make a return or make a false or fraudulent return the Commissioner of Internal Revenue has three years within which to ascertain the facts and notify the person or corporation of the amount of the assessment; to any such tax unpaid on its due date, and after ten days' notice and demand therefor by the collector, there shall be added five per cent., and in addition, interest at the rate of one per cent. per month from the date on which the tax became due. This penalty is not applicable to estates of insane, deceased, or insolvent persons.

Should a corporation or similar organization subject to tax either refuse or neglect to make a return at the proper time or render a false or fraudulent return it shall be liable to a penalty of not exceeding \$10,000. Either a person or corporation refusing or neglecting to make a return shall be subject to an additional 50% tax, and if the return be fraudulent, an additional 100% tax.

**Inspection
of
Returns**

Annual returns along with any corrections made by the Commissioner of Internal Revenue shall be filed in the office of the Commissioner and shall be open to inspection but only upon the order of the President. Although this provision is inserted in Subsection G which refers to corporations and similar organizations, the language used indicates that individual returns may also be inspected. Special permission is given to the proper officers of any State imposing a general income tax to inspect the returns of corporations and similar organizations subject to tax on their net income. The returns of individuals cannot be inspected by such state officers except upon the order of the President.

**Receipt
for Tax**

The collector of internal revenue, for all taxes paid to him, whether by a corporation or such other person as deducts the tax at the source, or by the taxable person direct, shall give his (i. e., the collector's) receipt. Upon request this receipt shall be separate and distinct for the individual payments on behalf of each individual tax-payer whose tax has been deducted at the source. Upon demand this receipt shall be delivered by the corporation or other person or concern deducting the tax to

the individual whose tax has been deducted and paid to the Government. How this will work out in the case of a bank paying the coupons of a corporation some months before the corporation pays the tax to the government is one of the questions which the Treasury Department will doubtless solve.

It should be noted in closing that the income tax law applies to Porto Rico and the Philippine Islands and that all revenues collected by them shall accrue intact to the general governments of each respectively.

Island
Posses-
sions

Assuming that a tax-payer is entitled to no deduction or exemption other than a specific exemption of four thousand dollars, and assuming also that the specific exemption is allowed in computing the additional tax, the following table shows the approximate amount of income tax upon the annual net income of an individual ranging from four thousand dollars to one million dollars:

Amount of Net Income	Amount of Tax	Amount of Net Income	Amount of Tax
\$4,000	\$...	\$85,000	\$1,790
5,000	10	90,000	1,990
6,000	20	95,000	2,190
7,000	30	100,000	2,390
8,000	40	125,000	3,600
9,000	50	150,000	4,850
10,000	60	175,000	6,100
15,000	110	200,000	7,350
20,000	160	225,000	8,600
25,000	220	250,000	9,850
30,000	320	300,000	12,810
35,000	420	350,000	15,810
40,000	520	400,000	18,810
45,000	620	450,000	21,810
50,000	720	500,000	24,810
55,000	830	600,000	31,770
60,000	980	700,000	38,770
65,000	1,130	800,000	45,770
70,000	1,280	900,000	52,770
75,000	1,430	1,000,000	59,770
80,000	1,590		

Income Tax Law

Being Section II and part of Section IV of an act
of 1913 [H. R. 3321] "to reduce tariff duties
and to provide revenues for the Govern-
ment, and for other purposes."

SECTION II.

A. Subdivision 1. That there shall be levied, assessed, collected and paid annually upon the entire net income arising or accruing from all sources in the preceding calendar year to every citizen of the United States, whether residing at home or abroad, and to every person residing in the United States, though not a citizen thereof, a tax of 1 per centum per annum upon such income, except as hereinafter provided; and a like tax shall be assessed, levied, collected, and paid annually upon the entire net income from all property owned and of every business, trade, or profession carried on in the United States by persons residing elsewhere.

Persons
Subject
to Tax

Subdivision 2. In addition to the income tax provided under this section (herein referred to as the normal income tax) there shall be levied, assessed, and collected upon the net income of every individual an additional income tax (herein referred to as the additional tax) of 1 per centum per annum upon the amount by which the total net income exceeds \$20,000 and does not exceed \$50,000, and 2 per centum per annum upon the amount by which the total net income exceeds \$50,000 and does not exceed \$75,000, 3 per centum per annum upon the amount by which the total net income exceeds \$75,000 and does not exceed \$100,000, 4 per centum per annum upon the amount

Rate of
Tax.

by which the total net income exceeds \$100,000 and does not exceed \$250,000, 5 per centum per annum upon the amount by which the total net income exceeds \$250,000 and does not exceed \$500,000, and 6 per centum per annum upon the amount by which the total net income exceeds \$500,000. All the provisions of this section relating to individuals who are to be chargeable with the normal income tax, so far as they are applicable and are not inconsistent with this subdivision of paragraph A, shall apply to the levy, assessment, and collection of the additional tax imposed under this section. Every person subject to this additional tax shall, for the purpose of its assessment and collection, make a personal return of his total net income from all sources, corporate or otherwise, for the preceding calendar year, under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury. For the purpose of this additional tax the taxable income of any individual shall embrace the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint stock companies, or associations however created or organized, formed or fraudulently availed of for the purpose of preventing the imposition of such tax through the medium of permitting such gains and profits to accumulate instead of being divided or distributed; and the fact that any such corporation, joint stock company, or association, is a mere holding company, or that the gains and profits are permitted to accumulate beyond the

Undivided
Profits
Taxable

reasonable needs of the business shall be prima facie evidence of a fraudulent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the said tax in such case unless the Secretary of the Treasury shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Commissioner of Internal Revenue, or any district collector of internal revenue, such corporation, joint stock company or association shall forward to him a correct statement of such profits and the names of the individuals who would be entitled to the same if distributed.

B. That, subject only to such exemptions and deductions as are hereinafter allowed, the net income of a taxable person shall include gains, profits, and income derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any lawful business carried on for gain or profit, or gains or profits and income derived from any source whatever, including the income from but not the value of property acquired by gift, bequest, devise, or descent: *Provided*, That the proceeds of life insurance policies paid upon the death of the person insured or payments made

Taxable
Income

by or credited to the insured, on life insurance, endowment, or annuity contracts, upon the return thereof to the insured at the maturity of the term mentioned in the contract, or upon surrender of contract, shall not be included as income.

Deductions in
Computing
Normal
Tax

That in computing net income for the purpose of the normal tax there shall be allowed as deductions: First, the necessary expenses actually paid in carrying on any business, not including personal, living, or family expenses; second, all interest paid within the year by a taxable person on indebtedness; third, all national, State, county, school, and municipal taxes paid within the year, not including those assessed against local benefits; fourth, losses actually sustained during the year, incurred in trade or arising from fires, storms, or shipwreck, and not compensated for by insurance or otherwise; fifth, debts due to the taxpayer actually ascertained to be worthless and charged off within the year; sixth, a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per centum of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate; seventh, the amount received as

dividends upon the stock or from the net earnings of any corporation, joint-stock company, association, or insurance company which is taxable upon its net income as hereinafter provided; eighth, the amount of income, the tax upon which has been paid or withheld for payment at the source of the income, under the provisions of this section, provided that whenever the tax upon the income of a person is required to be withheld and paid at the source as hereinafter required, if such annual income does not exceed the sum of \$3,000 or is not fixed or certain, or is indefinite, or irregular as to amount or time of accrual, the same shall not be deducted in the personal return of such person.

The net income from property owned and business carried on in the United States by persons residing elsewhere shall be computed upon the basis prescribed in this paragraph and that part of paragraph G of this section relating to the computation of the net income of corporations, joint-stock and insurance companies, organized, created, or existing under the laws of foreign countries, in so far as applicable.

That in computing net income under this section there shall be excluded the interest upon the obligations of a State or any political subdivision thereof, and upon the obligations of the United States or its possessions; also the compensation of the present President of the United States during the term for which he has been elected, and of the judges of the supreme and inferior courts of the United States now in office, and the compensation

Non-
Taxable
Income

of all officers and employees of a State or any political subdivision thereof except when such compensation is paid by the United States Government.

Specific
Deduction

C. That there shall be deducted from the amount of the net income of each of said persons, ascertained as provided herein, the sum of \$3,000, plus \$1,000 additional if the person making the return be a married man with a wife living with him, or plus the sum of \$1,000 additional if the person making the return be a married woman with a husband living with her; but in no event shall this additional exemption of \$1,000 be deducted by both a husband and a wife: *Provided*, That only one deduction of \$4,000 shall be made from the aggregate income of both husband and wife when living together.

Tax
Year

D. The said tax shall be computed upon the remainder of said net income of each person subject thereto, accruing during each preceding calendar year ending December thirty-first: *Provided, however*, That for the year ending December thirty-first, nineteen hundred and thirteen, said tax shall be computed on the net income accruing from March first to December thirty-first, nineteen hundred and thirteen, both dates inclusive, after deducting five-sixths only of the specific exemptions and deductions herein provided for. On or before the first day of March, nineteen hundred and fourteen, and the first day of March in each year thereafter, a true and accurate return, under oath or affirmation, shall be made by each person of lawful age, except as hereinafter provided, subject to the tax imposed

by this section, and having a net income of \$3,000 or over for the taxable year, to the collector of internal revenue for the district in which such person resides or has his principal place of business, or, in the case of a person residing in a foreign country, in the place where his principal business is carried on within the United States, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, setting forth specifically the gross amount of income from all separate sources and from the total thereof, deducting the aggregate items or expenses and allowance herein authorized; guardians, trustees, executors, administrators, agents, receivers, conservators, and all persons, corporations, or associations acting in any fiduciary capacity, shall make and render a return of the net income of the person for whom they act, subject to this tax, coming into their custody or control and management, and be subject to all the provisions of this section which apply to individuals: *Provided*, That a return made by one of two or more joint guardians, trustees, executors, administrators, agents, receivers, and conservators, or other persons acting in a fiduciary capacity, filed in the district where such person resides, or in the district where the will or other instrument under which he acts is recorded, under such regulations as the Secretary of the Treasury may prescribe, shall be a sufficient compliance with the requirements of this paragraph; and also all persons, firms, companies, copartnerships, corporations, joint-stock companies or associations, and insur-

Deduction
at Source

ance companies, except as hereinafter provided, in whatever capacity acting, having the control, receipt, disposal, or payment of fixed or determinable annual or periodical gains, profits, and income of another person subject to tax, shall in behalf of such person deduct and withhold from the payment an amount equivalent to the normal income tax upon the same and make and render a return, as aforesaid, but separate and distinct, of the portion of the income of each person from which the normal tax has been thus withheld, and containing also the name and address of such person or stating that the name and address or the address, as the case may be, are unknown: *Provided*, That the provision requiring the normal tax of individuals to be withheld at the source of the income shall not be construed to require any of such tax to be withheld prior to the first day of November, 1913: *Provided further*, That in either case above mentioned no return of income not exceeding \$3,000 shall be required: *Provided further*, That any persons carrying on business in partnership shall be liable for income tax only in their individual capacity, and the share of the profits of a partnership to which any taxable partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid, under the provisions of this section, and any such firm, when requested by the Commissioner of Internal Revenue, or any district collector, shall forward to him a correct statement of such profits and the names of the individuals who would be entitled to the same,

Partners
Liable
Individually

if distributed: *Provided further*, That persons liable for the normal income tax only, on their own account or in behalf of another, shall not be required to make return of the income derived from dividends on the capital stock or from the net earnings of corporations, joint-stock companies or associations, and insurance companies taxable upon their net income as hereinafter provided. Any person for whom return has been made and the tax paid, or to be paid as aforesaid, shall not be required to make a return unless such person has other net income, but only one deduction of \$3,000 shall be made in the case of any such person. The collector or deputy collector shall require every list to be verified by the oath or affirmation of the party rendering it. If the collector or deputy collector have reason to believe that the amount of any income returned is understated, he shall give due notice to the person making the return to show cause why the amount of the return should not be increased, and upon proof of the amount understated may increase the same accordingly. If dissatisfied with the decision of the collector, such person may submit the case, with all the papers, to the Commissioner of Internal Revenue for his decision, and may furnish sworn testimony of witnesses to prove any relevant facts.

E. That all assessments shall be made by the Commissioner of Internal Revenue and all persons shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessments shall be paid on or before the thirtieth day of June,

Assess-
ment and
Payment

except in cases of refusal or neglect to make such return and in cases of false or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this section or by existing law, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such person or persons immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of 5 per centum on the amount of tax unpaid, and interest at the rate of 1 per centum per month upon said tax from the time the same became due, except from the estates of insane, deceased, or insolvent persons.

Deduction
at Source

All persons, firms, copartnerships, companies, corporations, joint-stock companies or associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers, and all officers and employees of the United States having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual gains, profits, and income of another person, exceeding \$3,000 for any taxable year, other than dividends on capital stock, or from the net earnings

T H E I N C O M E T A X L A W

of corporations and joint-stock companies or associations subject to like tax, who are required to make and render a return in behalf of another, as provided herein, to the collector of his, her, or its district, are hereby authorized and required to deduct and withhold from such annual gains, profits, and income such sum as will be sufficient to pay the normal tax imposed thereon by this section, and shall pay to the officer of the United States Government authorized to receive the same; and they are each hereby made personally liable for such tax.

In all cases where the income tax of a person is withheld and deducted and paid or to be paid at the source, as aforesaid, such person shall not receive the benefit of the deduction and exemption allowed in paragraph C of this section except by an application for refund of the tax unless he shall, not less than thirty days prior to the day on which the return of his income is due, file with the person who is required to withhold and pay tax for him, a signed notice in writing claiming the benefit of such exemption and thereupon no tax shall be withheld upon the amount of such exemption: *Provided*, That if any person for the purpose of obtaining any allowance or reduction by virtue of a claim for such exemption, either for himself or for any other person, knowingly makes any false statement or false or fraudulent representation, he shall be liable to a penalty of \$300; nor shall any person under the foregoing conditions be allowed the benefit of any deduction provided for in subsection B of this section unless he shall, not less than thirty days prior to the

Exemp-
tions

day on which the return of his income is due, either file with the person who is required to withhold and pay tax for him a true and correct return of his annual gains, profits, and income from all other sources, and also the deductions asked for, and the showing thus made shall then become a part of the return to be made in his behalf by the person required to withhold and pay the tax, or likewise make application for deductions to the collector of the district in which return is made or to be made for him: *Provided further*, That if such person is a minor or an insane person, or is absent from the United States, or is unable owing to serious illness to make the return and application above provided for, the return and application may be made for him or her by the person required to withhold and pay the tax, he making oath under the penalties of this Act that he has sufficient knowledge of the affairs and property of his beneficiary to enable him to make a full and complete return for him or her, and that the return and application made by him are full and complete: *Provided further*, That the amount of the normal tax hereinbefore imposed shall be deducted and withheld from fixed and determinable annual gains, profits, and income derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies or associations, and insurance companies, whether payable annually or at shorter or longer periods, although such interest does not amount to \$3,000, subject to the provisions of this section requiring the tax to be withheld at the source

and deducted from annual income and paid to the Government; and likewise the amount of such tax shall be deducted and withheld from coupons, checks, or bills of exchange for or in payment of interest upon bonds of foreign countries and upon foreign mortgages or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries; and the tax in each case shall be withheld and deducted for and in behalf of any person subject to the tax hereinbefore imposed, although such interest, dividends, or other compensation does not exceed \$3,000, by any banker or person who shall sell or otherwise realize coupons, checks, or bills of exchange drawn or made in payment of any such interest or dividends (not payable in the United States), and any person who shall obtain payment (not in the United States), in behalf of another of such dividends and interest by means of coupons, checks, or bills of exchange, and also any dealer in such coupons who shall purchase the same for any such dividends or interest (not payable in the United States), otherwise than from a banker or another dealer in such coupons; but in each case the benefit of the exemption and the deduction allowable under this section may be had by complying with the foregoing provisions of this paragraph.

All persons, firms, or corporations undertaking as a matter of business or for profit the collection of

foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Commissioner of Internal Revenue, and shall be subject to such regulations enabling the Government to ascertain and verify the due withholding and payment of the income tax required to be withheld and paid as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; and any person who shall knowingly undertake to collect such payments as aforesaid without having obtained a license therefor, or without complying with such regulations, shall be deemed guilty of a misdemeanor and for each offense be fined in a sum not exceeding \$5,000, or imprisoned for a term not exceeding one year, or both, in the discretion of the court.

Nothing in this section shall be construed to release a taxable person from liability for income tax, nor shall any contract entered into after this Act takes effect be valid in regard to any Federal income tax imposed upon a person liable to such payment.

The tax herein imposed upon annual gains, profits, and income not falling under the foregoing and not returned and paid by virtue of the foregoing shall be assessed by personal return under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury.

The provisions of this section relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax hereinbefore imposed upon individuals.

F. That if any person, corporation, joint-stock company, association, or insurance company liable to make the return or pay the tax aforesaid shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, such person shall be liable to a penalty of not less than \$20 nor more than \$1,000. Any person or any officer of any corporation required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this section to be made shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

Penalty

G. (a) That the normal tax hereinbefore imposed upon individuals likewise shall be levied, assessed, and paid annually upon the entire net income arising or accruing from all sources during the preceding calendar year to every corporation, joint-stock company or association, and every insurance company, organized in the United States, no matter how created or organized, not including partnerships; but if organized, authorized, or existing under the laws of any foreign country, then upon the amount of net income accruing from business transacted and capital invested within the United States during such year: *Provided, however,* That nothing in this section shall apply to labor, agricultural, or horticultural organizations, or to mutual savings banks not having a capital stock represented by shares, or to fraternal beneficiary societies, or-

Corporate
Net
Income

Non-
Taxable
Organiza-
tions

ders, or associations operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and providing for the payment of life, sick, accident, and other benefits to the members of such societies, orders, or associations and dependents of such members, nor to domestic building and loan associations, nor to cemetery companies, organized and operated exclusively for the mutual benefit of their members, nor to any corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual, nor to business leagues, nor to chambers of commerce or boards of trade, not organized for profit or no part of the net income of which inures to the benefit of the private stockholder or individual; nor to any civic league or organization not organized for profit, but operated exclusively for the promotion of social welfare: *Provided further*, That there shall not be taxed under this section any income derived from any public utility or from the exercise of any essential governmental function accruing to any State, Territory, or the District of Columbia, or any political subdivision of the State, Territory, or the District of Columbia, nor any income accruing to the government of the Philippine Islands or Porto Rico, or of any political subdivision of the Philippine Islands or Porto Rico: *Provided*, That whenever any State, Territory, or the District of Columbia, or any political subdivision of the State or Territory, has, prior to the passage of this Act, entered in good faith into a contract with any person

Municipal
Income

or corporation, the object and purpose of which is to acquire, construct, operate or maintain a public utility, no tax shall be levied under the provisions of this Act upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, or the District of Columbia, or a political subdivision of a State or Territory; but this provision is not intended to confer upon such person or corporation any financial gain or exemption or to relieve such person or corporation from the payment of a tax as provided for in this section upon the part or portion of the said income to which such person or corporation shall be entitled under such contract.

(b) Such net income shall be ascertained by deducting from the gross amount of the income of such corporation, joint-stock company or association, or insurance company, received within the year from all sources, (first) all the ordinary and necessary expenses paid within the year in the maintenance and operation of its business and properties, including rentals or other payments required to be made as a condition to the continued use or possession of property; (second) all losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear and tear of property, if any; and in the case of mines a reasonable allowance for depletion of ores and all other natural deposits, not to exceed 5 per centum of the gross value at the mine of the output for the year for which the computation is made; and in case of insurance

Deduc-
tions

companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided*, That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (third) the amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding one-half of the sum of its interest-bearing indebtedness and its paid-up capital stock outstand-

ing at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of its indebtedness not exceeding the amount of capital employed in the business at the close of the year: *Provided*, That in case of indebtedness wholly secured by collateral the subject of sale in ordinary business of such corporation, joint-stock company, or association, the total interest secured and paid by such company, corporation, or association within the year on any such indebtedness may be deducted as a part of its expense of doing business: *Provided further*, That in the case of bonds or other indebtedness, which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed shall be allowed; and in the case of a bank, banking association, loan, or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company; (fourth) all sums paid by it within the year for taxes imposed under the authority of the United States or of any State or Territory thereof, or imposed by the Government of any foreign country: *Provided*, That in the case of a corporation, joint-stock company or association, or insurance company, organized, authorized, or existing under the laws of any foreign country, such net income shall be ascertained by deducting from the gross amount of its income accrued within the year from business transacted and capital invested within the United States,

(first) all the ordinary and necessary expenses actually paid within the year out of earnings in the maintenance and operation of its business and property within the United States, including rentals or other payments required to be made as a condition to the continued use or possession of property; (second) all losses actually sustained within the year in business conducted by it within the United States and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear and tear of property, if any, and in the case of mines a reasonable allowance for depletion of ores and all other natural deposits, not to exceed 5 per centum of the gross value at the mine of the output for the year for which the computation is made; and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further*, That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums col-

lected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (third) the amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding the proportion of one-half of the sum of its interest-bearing indebtedness and its paid-up capital stock outstanding at the close of the year, or if no capital stock, the capital employed in the business at the close of the year which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States: *Provided*, That in the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed shall be allowed; (fourth) all sums paid by it within the year for taxes imposed under the authority of the United States or of any State, or Territory thereof, or the District of Columbia. In the case of

T H E I N C O M E T A X L A W

assessment insurance companies, whether domestic or foreign, the actual deposit of sums with State or Territorial officers, pursuant to law, as additions to guarantee or reserve funds shall be treated as being payments required by law to reserve funds.

Taxable
Year

(c) The tax herein imposed shall be computed upon its entire net income accrued within each preceding calendar year ending December thirty-first: *Provided, however,* That for the year ending December thirty-first, nineteen hundred and thirteen, said tax shall be imposed upon its entire net income accrued within that portion of said year from March first to December thirty-first, both dates inclusive, to be ascertained by taking five-sixths of its entire net income for said calendar year: *Provided further,* That any corporation, joint-stock company or association, or insurance company subject to this tax may designate the last day of any month in the year as the day of the closing of its fiscal year and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as herein provided for the year ending on the day so designated in the year preceding the date of assessment instead of upon the basis of the net income for the calendar year preceding the date of assessment; and it shall give notice of the day it has thus designated as the closing of its fiscal year to the collector of the district in which its principal business office is located at any time not less than thirty days prior to the date upon which its annual return shall be filed. All corporations, joint-stock companies or associations, and insurance companies subject to the tax

herein imposed, computing taxes upon the income of the calendar year, shall, on or before the first day of March, nineteen hundred and fourteen, and the first day of March in each year thereafter, and all corporations, joint-stock companies or associations, and insurance companies, computing taxes upon the income of a fiscal year which it may designate in the manner hereinbefore provided, shall render a like return within sixty days after the close of its said fiscal year, and within sixty days after the close of its fiscal year in each year thereafter, or in the case of a corporation, joint-stock company or association, or insurance company, organized or existing under the laws of a foreign country, in the place where its principal business is located within the United States, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, shall render a true and accurate return under oath or affirmation of its president, vice president, or other principal officer, and its treasurer or assistant treasurer, to the collector of internal revenue for the district in which it has its principal place of business, setting forth (first) the total amount of its paid-up capital stock outstanding, or if no capital stock, its capital employed in business, at the close of the year; (second) the total amount of its bonded and other indebtedness at the close of the year; (third) the gross amount of its income, received during such year from all sources, and if organized under the laws of a foreign country the gross amount of its income received within the year from business transacted and capital invested

Return

within the United States; (fourth) the total amount of all its ordinary and necessary expenses paid out of earnings in the maintenance and operation of the business and properties of such corporation, joint-stock company or association, or insurance company within the year, stating separately all rentals or other payments required to be made as a condition to the continued use or possession of property, and if organized under the laws of a foreign country the amount so paid in the maintenance and operation of its business within the United States; (fifth) the total amount of all losses actually sustained during the year and not compensated by insurance or otherwise, stating separately any amounts allowed for depreciation of property, and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further*, That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income

amounts repaid to policy-holders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; and in case of a corporation, joint-stock company or association, or insurance company, organized under the laws of a foreign country, all losses actually sustained by it during the year in business conducted by it within the United States, not compensated by insurance or otherwise, stating separately any amounts allowed for depreciation of property, and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further*, That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance

companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (sixth) the amount of interest accrued and paid within the year on its bonded or other indebtedness not exceeding one-half of the sum of its interest-bearing indebtedness and its paid-up capital stock, outstanding at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of indebtedness not exceeding the amount of capital employed in the business at the close of the year, and in the case of a bank, banking association, or trust company, stating separately all interest paid by it within the year on deposits; or in case of a corporation, joint-stock company or association, or insurance company, organized under the laws of a foreign country, interest so paid on its bonded or other indebtedness to an amount of such bonded or other indebtedness not exceeding the proportion of its paid-up capital stock outstanding at the close of the year, or if no capital stock, the amount of capital

employed in the business at the close of the year, which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States; (seventh) the amount paid by it within the year for taxes imposed under the authority of the United States and separately the amount so paid by it for taxes imposed by the Government of any foreign country; (eighth) the net income of such corporation, joint-stock company or association, or insurance company, after making the deductions in this subsection authorized. All such returns shall as received be transmitted forthwith by the collector to the Commissioner of Internal Revenue.

All assessments shall be made and the several corporations, joint-stock companies or associations, and insurance companies shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessment shall be paid on or before the thirtieth day of June: *Provided*, That every corporation, joint-stock company or association, and insurance company, computing taxes upon the income of the fiscal year which it may designate in the manner hereinbefore provided, shall pay the taxes due under its assessment within one hundred and twenty days after the date upon which it is required to file its list or return of income for assessment; except in cases of refusal or neglect to make such return, and in cases of false or fraudulent returns, in which cases the Commissioner of Internal

Assessment and
Payment

Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this section or by existing law, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such corporation, joint-stock company or association, or insurance company immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, or after one hundred and twenty days from the date on which the return of income is required to be made by the taxpayer, and after ten days' notice and demand thereof by the collector, there shall be added the sum of 5 per centum on the amount of tax unpaid and interest at the rate of 1 per centum per month upon said tax from the time the same becomes due.

Returns
Open to
Inspection

(d) When the assessment shall be made, as provided in this section, the returns, together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such: *Provided*, That any and all such returns shall be open to inspection only upon the order of the President, under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President: *Provided further*, That the proper officers of any State imposing a general income tax may, upon the request of the governor thereof, have access to said returns or to an abstract

thereof, showing the name and income of each such corporation, joint-stock company, association or insurance company, at such times and in such manner as the Secretary of the Treasury may prescribe.

If any of the corporations, joint-stock companies or associations, or insurance companies aforesaid, shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint-stock company or association, or insurance company shall be liable to a penalty of not exceeding \$10,000.

H. That the word "State" or "United States" when used in this section shall be construed to include any Territory, Alaska, the District of Columbia, Porto Rico, and the Philippine Islands, when such construction is necessary to carry out its provisions.

I. That sections thirty-one hundred and sixty-seven, thirty-one hundred and seventy-two, thirty-one hundred and seventy-three, and thirty-one hundred and seventy-six of the Revised Statutes of the United States as amended are hereby amended so as to read as follows:

Details
of Admin-
istration

"Sec. 3167. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or dis-

closed in any income return by any person or corporation, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return or any part thereof or the amount or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office and be incapable thereafter of holding any office under the Government.

"Sec. 3172. Every collector shall, from time to time, cause his deputies to proceed through every part of his district and inquire after and concerning all persons therein who are liable to pay any internal-revenue tax, and all persons owning or having the care and management of any objects liable to pay any tax, and to make a list of such persons and enumerate said objects.

"Sec. 3173. It shall be the duty of any person, partnership, firm, association, or corporation, made liable to any duty, special tax, or other tax imposed by law, when not otherwise provided for, in case of a special tax, on or before the thirty-first day of July in each year, in case of income tax on or before the first day of March in each year, and in other cases

before the day on which the taxes accrue, to make a list or return, verified by oath or affirmation, to the collector or a deputy collector of the district where located, of the articles or objects, including the amount of annual income charged with a duty or tax, the quantity of goods, wares, and merchandise made or sold and charged with a tax, the several rates and aggregate amount, according to the forms and regulations to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, for which such person, partnership, firm, association, or corporation is liable: *Provided*, That if any person liable to pay any duty or tax, or owning, possessing, or having the care or management of property, goods, wares, and merchandise, articles or objects liable to pay any duty, tax, or license, shall fail to make and exhibit a list or return required by law, but shall consent to disclose the particulars of any and all the property, goods, wares, and merchandise, articles, and objects liable to pay any duty or tax, or any business or occupation liable to pay any tax as aforesaid, then, and in that case, it shall be the duty of the collector or deputy collector to make such list or return, which, being distinctly read, consented to, and signed and verified by oath or affirmation by the person so owning, possessing, or having the care and management as aforesaid, may be received as the list of such person: *Provided further*, That in case no annual list or return has been rendered by such person to the collector or deputy collector as required by law, and the person shall be absent from

his or her residence or place of business at the time the collector or a deputy collector shall call for the annual list or return, it shall be the duty of such collector or deputy collector to leave at such place of residence or business, with some one of suitable age and discretion, if such be present, otherwise to deposit in the nearest post office, a note or memorandum addressed to such person, requiring him or her to render to such collector or deputy collector the list or return required by law within ten days from the date of such note or memorandum, verified by oath or affirmation. And if any person, on being notified or required as aforesaid, shall refuse or neglect to render such list or return within the time required as aforesaid, or whenever any person who is required to deliver a monthly or other return of objects subject to tax fails to do so at the time required, or delivers any return which, in the opinion of the collector, is false or fraudulent, or contains any undervaluation or understatement, it shall be lawful for the collector to summon such person, or any other person having possession, custody, or care of books of account containing entries relating to the business of such person, or any other person he may deem proper, to appear before him and produce such books, at a time and place named in the summons, and to give testimony or answer interrogatories, under oath, respecting any objects liable to tax or the returns thereof. The collector may summon any person residing or found within the State in which his district lies; and when the person intended to be summoned does not reside and can not be

found within such State, he may enter any collection district where such person may be found and there make the examination herein authorized. And to this end he may there exercise all the authority which he might lawfully exercise in the district for which he was commissioned.

“Sec. 3176. When any person, corporation, company or association refuses or neglects to render any return or list required by law, or renders a false or fraudulent return or list, the collector or any deputy collector shall make, according to the best information which he can obtain, including that derived from the evidence elicited by the examination of the collector, and on his own view and information, such list or return, according to the form prescribed, of the income, property, and objects liable to tax owned or possessed or under the care or management of such person or corporation, company or association, and the Commissioner of Internal Revenue shall assess all taxes not paid by stamps, including the amount, if any, due for special tax, income or other tax, and in case of any return of a false or fraudulent list or valuation intentionally he shall add 100 per centum to such tax; and in case of a refusal or neglect, except in cases of sickness or absence, to make a list or return, or to verify the same as aforesaid, he shall add 50 per centum to such tax. In case of neglect occasioned by sickness or absence as aforesaid the collector may allow such further time for making and delivering such list or return as he may deem necessary, not exceeding thirty days. The amount so added to the tax shall be collected at the same time and in the same man-

ner as the tax unless the neglect or falsity is discovered after the tax has been paid, in which case the amount so added shall be collected in the same manner as the tax; and the list or return so made and subscribed by such collector or deputy collector shall be held *prima facie* good and sufficient for all legal purposes."

J. That it shall be the duty of every collector of internal revenue, to whom any payment of any taxes other than the tax represented by an adhesive stamp or other engraved stamp is made under the provisions of this section, to give to the person making such payment a full written or printed receipt, expressing the amount paid and the particular account for which such payment was made; and whenever such payment is made such collector shall, if required, give a separate receipt for each tax paid by any debtor, on account of payments made to or to be made by him to separate creditors in such form that such debtor can conveniently produce the same separately to his several creditors in satisfaction of their respective demands to the amounts specified in such receipts; and such receipts shall be sufficient evidence in favor of such debtor to justify him in withholding the amount therein expressed from his next payment to his creditor; but such creditor may, upon giving to his debtor a full written receipt, acknowledging the payment to him of whatever sum may be actually paid, and accepting the amount of tax paid as aforesaid (specifying the same) as a further satisfaction of the debt to that amount, require the surrender to him of each collector's receipt.

K. That jurisdiction is hereby conferred upon the district courts of the United States for the district within which any person summoned under this section to appear to testify or to produce books shall reside, to compel such attendance, production of books, and testimony by appropriate process.

L. That all administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal-revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this section, are hereby extended and made applicable to all the provisions of this section and to the tax herein imposed.

M. That the provisions of this section shall extend to Porto Rico and the Philippine Islands: *Provided*, That the administration of the law and the collection of the taxes imposed in Porto Rico and the Philippine Islands shall be by the appropriate internal-revenue officers of those governments, and all revenues collected in Porto Rico and the Philippine Islands thereunder shall accrue intact to the general governments, thereof, respectively: *And provided further*, That the jurisdiction in this section conferred upon the district courts of the United States shall, so far as the Philippine Islands are concerned, be vested in the courts of the first instance of said islands: *And provided further*, That nothing in this section shall be held to exclude from the computation of the net income the compensation paid any official by the governments of the District of Columbia, Porto Rico, and the Philippine Islands or the political subdivisions thereof.

N. That for the purpose of carrying into effect the provisions of Section II of this Act, and to pay the expenses of assessing and collecting the income tax therein imposed, and to pay such sums as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may deem necessary, for information, detection, and bringing to trial and punishment persons guilty of violating the provisions of this section, or conniving at the same, in cases where such expenses are not otherwise provided for by law, there is hereby appropriated out of any money in the Treasury not otherwise appropriated for the fiscal year ending June thirtieth, nineteen hundred and fourteen, the sum of \$800,000, and the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, is authorized to appoint and pay from this appropriation all necessary officers, agents, inspectors, deputy collectors, clerks, messengers and janitors, and to rent such quarters, purchase such supplies, equipment, mechanical devices, and other articles as may be necessary for employment or use in the District of Columbia or any collection district in the United States, or any of the Territories thereof: *Provided*, That no agent paid from this appropriation shall receive compensation at a rate higher than that now received by traveling agents on accounts in the Internal Revenue Service, and no inspector shall receive a compensation higher than \$5 a day and \$3 additional in lieu of subsistence, and no deputy collector, clerk, messenger, or other employee shall be paid at a rate of compensation higher than the rate

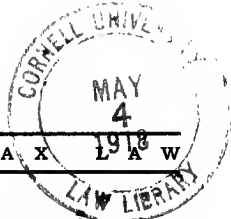
now being paid for the same or similar work in the Internal Revenue Service.

In the office of the Commissioner of Internal Revenue at Washington, District of Columbia there shall be appointed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury one additional deputy commissioner, at a salary of \$4,000 per annum; two heads of divisions, whose compensation shall not exceed \$2,500 per annum; and such other clerks, messengers, and employees, and to rent such quarters and to purchase such supplies as may be necessary: *Provided*, That for a period of two years from and after the passage of this Act the force of agents, deputy collectors, inspectors, and other employees not including the clerical force below the grade of chief of division employed in the Bureau of Internal Revenue in the city of Washington, District of Columbia authorized by this section of this Act shall be appointed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, under such rules and regulations as may be fixed by the Secretary of the Treasury to insure faithful and competent service, and with such compensation as the Commissioner of Internal Revenue may fix, with the approval of the Secretary of the Treasury, within the limitations herein prescribed: *Provided further*, That the force authorized to carry out the provisions of Section II of this Act, when not employed as herein provided, shall be employed on general internal-revenue work.

SECTION IV.

* * *

S. That, except as hereinafter provided, sections one to forty-two both inclusive, of an Act entitled "An Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," approved August fifth, nineteen hundred and nine, and all Acts and parts of Acts inconsistent with the provisions of this Act, are hereby repealed: * * * *Provided further*, That all excise taxes upon corporations imposed by section thirty-eight, that have accrued or have been imposed for the year ending December thirty-first, nineteen hundred and twelve, shall be returned, assessed, and collected in the same manner, and under the same provisions, liens, and penalties as if section thirty-eight continued in full force and effect: *And provided further*, That a special excise tax with respect to the carrying on or doing of business, equivalent to 1 per centum upon their entire net income, shall be levied, assessed, and collected upon corporations, joint stock companies or associations, and insurance companies, of the character described in section thirty-eight of the Act of August fifth, nineteen hundred and nine, for the period from January first to February twenty-eighth, nineteen hundred and thirteen, both dates inclusive, which said tax shall be computed upon one-sixth of the entire net income of said corporations, joint stock companies or associations, and insurance companies, for said year, said net income to be ascertained in ac-



cordance with the provisions of subsection G of section two of this Act: *Provided further*, That the provisions of said section thirty-eight of the Act of August fifth, nineteen hundred and nine, relative to the collection of the tax therein imposed shall remain in force for the collection of the excise tax herein provided, but for the year nineteen hundred and thirteen it shall not be necessary to make more than one return and assessment for all the taxes imposed herein upon said corporations, joint stock companies or associations, and insurance companies, either by way of income or excise, which return and assessment shall be made at the times and in the manner provided in this Act; but the repeal of existing laws or modifications thereof embraced in this Act shall not affect any act done, or any right accruing or accrued, or any suit or proceedings had or commenced in any civil case before the said repeal or modification; but all rights and liabilities under said laws shall continue and may be enforced in the same manner as if said repeal or modifications had not been made. Any offenses committed and all penalties or forfeitures or liabilities incurred prior to the passage of this Act under any statute embraced in or changed, modified, or repealed by this Act may be prosecuted or punished in the same manner and with the same effect as if this Act had not been passed. No Acts of limitation now in force, whether applicable to civil causes and proceedings or to the prosecution of offenses or for the recovery of penalties or forfeitures embraced in or modified, changed, or re-

pealed by this Act shall be affected thereby so far as they affect any suits, proceedings, or prosecutions, whether civil or criminal, for causes arising or acts done or committed prior to the passage of this Act, which may be commenced and prosecuted within the same time and with the same effect as if this Act had not been passed.

T. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of said Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

U. That unless otherwise herein specially provided, this Act shall take effect on the day following its passage.

Approved, 9.10 p. m., October 3, 1913.

TREASURY DECISIONS

REGULATIONS

REGARDING THE DEDUCTION OF THE INCOME TAX AT THE SOURCE ON INTEREST MATURING ON BONDS, NOTES, AND OTHER SIMILAR OBLIGATIONS OF CORPORATIONS, JOINT-STOCK COMPANIES, OR ASSOCIATIONS AND INSURANCE COMPANIES, UNDER THE PROVISIONS OF SECTION II OF THE ACT OF OCTOBER 3, 1913.

TAX TO BE DEDUCTED AT SOURCE.

Under the income-tax law enacted October 3, 1913, a tax of 1 per cent, designated in the law as the *normal* tax, shall be deducted at "the source," beginning November 1, 1913, from all income accruing and payable to—

- (a) Every citizen of the United States, whether residing at home or abroad; and to
- (b) Every person residing in the United States, though not a citizen thereof,

which may be derived from interest upon bonds and mortgages, or deeds of trust, or other similar obligations, including equipment trust agreements and receivers' certificates of corporations, joint-stock companies or associations, and insurance companies, although such interest does not amount to

\$3,000, excepting only the interest upon the obligations of the United States or its possessions, or a State or any political subdivision thereof.

The term "debtor," as hereinafter used, shall be construed to cover all corporations, joint-stock companies or associations, and insurance companies.

**WHEN TAX SHALL BE WITHHELD BY
DEBTOR.**

For the purpose of collecting this tax on all coupons and registered interest originating or payable in the United States the source shall be the debtor (or its paying agent in the United States), which shall deduct the tax when same is to be withheld, and no other bank, trust company, banking firm, or individual taking coupons or interest orders for collection, or otherwise, shall withhold the tax thereon: *Provided*, That all such coupons or orders for registered interest are accompanied by certificates of ownership signed by the owners of the bonds upon which the interest matured. These certificates shall be in the forms hereinafter prescribed, and a separate certificate shall be made out by each owner of bonds for the coupons or interest orders for each separate issue of bonds or obligations, of each debtor.

**WHEN TAX SHALL BE WITHHELD BY FIRST
COLLECTING AGENCY.**

If, however, the coupons or interest orders are not accompanied by certificates as prescribed above, the first bank, trust company, banking firm, or individual, or collecting agency receiving the coupons or in-

terest orders for collection, or otherwise, shall deduct and withhold the tax and shall attach to such coupons or interest orders its own certificate, giving the name and address of the owner of, or the person presenting such coupons or interest orders if the owner is not known, with a description of the coupons or interest orders; also setting forth the fact that they are withholding the tax upon them; whereupon the debtor shall not again withhold the tax on said coupons or interest orders, but in lieu thereof shall deliver to the Government the certificate of such bank, trust company, etc., which is withholding such tax money.

Any corporation, collecting agency, or person first receiving from the owner any interest coupons or orders for the collection of registered interest, and to whom the certificates above provided for are delivered, should require the persons tendering such coupons or orders for registered interest to satisfactorily establish their identity.

PAYMENT OF REGISTERED INTEREST BY DEBTORS.

A debtor whose bonds may be registered, both as to principal and interest, shall deduct the normal tax of 1 per cent from the accruing interest on all bonds before sending out checks for said interest to registered owners or before paying such interest upon interest orders signed by the registered holders of said bonds until there shall be filed with said debtor or its fiscal agent (and not later than thirty (30) days prior to March 1), through whom said interest is customarily paid, the proper certificates

claiming exemption from liability for said tax as herein provided, executed as follows:

By a citizen or resident of the United States, the bona fide owner of the registered obligations, who may claim exemption under paragraph C, section 2, of the Federal income-tax law, or

By corporations, joint-stock companies, associations, or insurance companies organized in the United States, or organizations, associations, fraternities, etc., which are either taxable or exempt from taxation, as provided in paragraph G, subdivision A, of the act, or

By a bona fide resident and citizen of a foreign country, claiming exemption as such.

DESIGNATION OF FISCAL AGENCIES.

The "debtor" may appoint paying or fiscal agents to act for it in matters pertaining to the collection of this tax upon filing with the collector of internal revenue for its district a proper notice of the appointment of such agent or agents.

CERTIFICATES CLAIMING EXEMPTION.

If the owners of the bonds are individuals who are citizens or residents of the United States, the aforesaid certificates shall accompany the coupons, or, with respect to the interest on registered bonds, shall be filed with payer of said interest, and such certificates shall describe the bonds and show the amount of coupons attached or the amount of interest due such owners on registered bonds and the full name and address of the owners, and shall also state whether they claim or do not then claim exemption

T R E A S U R Y D E C I S I O N S

from taxation at the source provided for by paragraph C of Section II of the Federal income-tax law (\$3,000, and under certain conditions \$4,000) as to the income represented by such coupons or interest.

The certificates shall also show the amount, if any, of exemption claimed and the date of signature.

The form of certificate to be used for this purpose shall be substantially as follows:

**FORM OF CERTIFICATE TO BE PRESENTED
WITH COUPONS OR INTEREST ORDERS
STATING WHETHER OR NOT EXEMPTION
IS CLAIMED UNDER PARAGRAPH C, SEC-
TION 2, OF THE FEDERAL INCOME TAX
LAW*.**

I do solemnly declare that I,, a citizen
or resident of the United States, and residing at,
am the owner of \$..... bonds of the denominations of \$.....
each, Nos.
.....
of the

(Give name of debtor.)

known as..... bonds,
(Describe the particular issue of bonds.)
from which were detached the accompanying coupons, due
....., 191., amounting to \$....., or upon which
there matured, 191., \$..... of regis-
tered interest.

I { do } now claim, with respect to the income repre-
do not } sented by said interest, the benefit of a deduction of \$.....
allowed under paragraph C, Section II. of the Federal Income
Tax Law, the total exemption to which I am entitled thereunder
being \$.....

Name.....

Address.....

Date....., 191...

*The wording of the certificate is in accordance with the
Treasury Department's latest ruling.

Whenever interest coupons, accompanied by a certificate of an individual who is a citizen or resident of the United States, as aforesaid, are presented to a debtor or its fiscal agent for payment, or whenever interest is payable to such individual on a bond registered as to both principal and interest, the debtor or its fiscal agents shall deduct and withhold the amount of the normal tax, except to the extent that exemption is claimed in the certificate of ownership in the form herein prescribed.

Where the interest to be paid is registered, the same form of certificate shall be used where exemptions are claimed, except that it shall be filed with the debtor at least five (5) days before the due date of such interest.

BY WHOM SIGNED.

These certificates must be signed by the claimants with their full name, and contain their post-office and street address, also the date when signed.

Duly authorized agents, trustees acting in a trust capacity, etc., may sign such certificates for the persons for whom they act.

ORGANIZATIONS WHOSE INTEREST COUPONS ARE NOT TAXED AT SOURCE.

If the owners of the bonds are corporations, joint-stock companies, associations, or insurance companies organized in the United States, no matter how created or organized, or organizations, associations, fraternities, etc., which are either taxable or exempt from taxation as provided in paragraph G, sub-

T R E A S U R Y D E C I S I O N S

division A of the act, the debtor is not required to withhold or deduct the tax upon income derived from interest on such bonds, provided coupons or orders for interest from such bonds shall be accompanied by a certificate of the owners thereof certifying to such ownership, which certificates shall be filed with the debtor when such coupons or interest orders are presented for payment.

Such certificate shall be substantially in the following form:

CERTIFICATE TO BE FURNISHED BY ORGANIZATIONS NOT SUBJECT TO TAX ON INTEREST AT SOURCE.

I, the of the
 (Give name.) (Give official position.)
 a
 (Name of organization.) (Character of organization.)
 of located at do
 (State.) (Post-office address.)
 solemnly declare that said
 (Give name of organization.)
 is the owner of \$ bonds of the denomination of
 \$ each, Nos.
 of the
 (Give name of debtor.)
 known as bonds,
 (Describe particular issue of bonds.)
 from which were detached the accompanying coupons, due
 191., amounting to \$ or upon which
 there matured 191. \$ of registered
 interest, and that under the provisions of the income-tax law of
 October 3, 1913, said interest is exempt from the payment of
 taxes collectible at the source, which exemption is hereby
 claimed.

Name
 (Official position.)
 Of
 (Name of organization.)
 Address
 (Post office.)

Date 191...

T R E A S U R Y D E C I S I O N S

Name.....
(Collecting agency.)

By.....
(Signature of officer duly authorized to sign, and his official position.)

Address..... (Give full address.)

Date..... 191...

This certificate shall be dated and signed by and shall state the address of the corporation, organization, collecting agency, or person withholding the tax, with full name and address.

FINAL DISPOSITION OF CERTIFICATES.

The debtor or paying agents shall deliver all certificates, with the list of names and addresses of those for whom the tax has been withheld, showing amounts, as required by law, to the *collector of internal revenue* for their district on or before the 20th day of the month succeeding that in which said certificates were received by them.

INTEREST DUE BEFORE MARCH 1, 1913.

The tax shall not be withheld on coupons or registered interest maturing and payable before March 1, 1913, although presented for payment at a later date.

**LICENSE REQUIRED FOR COLLECTION OF
INCOME FROM FOREIGN COUNTRIES.**

All persons, firms, or corporations undertaking for accommodation or profit (this includes handling either by way of purchase or collection) the collection of coupons, checks, bills of exchange, etc., for or in payment of interest upon bonds issued in for-

eign countries and upon foreign mortgages or like obligations, and for any dividends upon stock or interest upon obligations of foreign corporations, associations, or insurance companies engaged in business in foreign countries, are required by law to obtain a license from the Commissioner of Internal Revenue and may be required to give bond in such amount and under such conditions as the Commissioner of Internal Revenue may prescribe.

BY WHOM TAX IS WITHHELD.

The licensed person, firm, or corporation first receiving any such foreign items for collection or otherwise shall withhold therefrom the normal tax of 1 per cent, and will be held responsible therefor. He (the licensee) shall thereupon indorse or stamp thereon the words "Income tax withheld by" (giving his or their name, address, and date), which shall be sufficient evidence to relieve subsequent holders or purchasers from the duty of also withholding the income tax.

If the size or nature of such coupons, checks, etc., makes it impracticable to make said indorsement as above, a statement identifying the item on which tax is withheld and bearing said indorsement may be attached thereto with the same effect as if the indorsement was made directly thereon.

LIST OF TAX COLLECTIONS ON FOREIGN ITEMS.

Such licensee shall obtain the names and addresses of the persons from whom such items are received,

and shall prepare a list of same and file it with the collector of internal revenue for his district not later than the 20th of the month next succeeding the receipt of such items. The list shall be dated, and shall contain the names and addresses of the taxable persons and the amount of tax deducted, and from what source collected.

CERTIFICATES TO SECURE TAX EXEMPTION ON FOREIGN ITEMS.

In the event such coupons, checks, or bills of exchange above mentioned are presented for collection by an individual claiming the benefit of the deductions allowable under paragraph C, Section II, of the Federal income-tax law, such individual shall be permitted to avail himself of the deduction claimed, upon signing on the form heretofore prescribed for coupons payable in the United States, and no tax shall be deducted for the amount of the exemption so claimed; or if such items are presented by corporations, joint-stock companies, or associations and insurance companies, organized in the United States, the form of certificate heretofore prescribed for such organizations shall be used, and in such instances no tax shall be deducted.

In both instances the licensee first receiving such items shall retain such certificates for delivery with the lists aforesaid to the collector of internal revenue for his district not later than the 20th of the month next succeeding that in which said items were received, and with respect to said coupons, checks or bills of exchange, said licensee shall attach thereto

(identifying the items) or indorse, or stamp thereon the words "Income tax exemption claimed through" (giving name and address of licensee), which shall be sufficient evidence to relieve subsequent holders or purchasers from the duty of also withholding the tax thereon.

The provisions for collection of the tax on foreign obligations set forth in this section of the regulations includes the interest upon all foreign bonds, even though the coupons may be at the option of the holder, payable in the United States as well as in some foreign country.

ACCURATE RECORD TO BE KEPT BY LICENSEES.

All persons licensed shall keep their records in such manner as to show from whom every such item has been received, and such records shall be open at all times to the inspection of internal-revenue officers.

PENALTY FOR OMISSION TO OBTAIN LICENSE.

Failure to obtain license or to *comply with regulations* is punishable by a *fine* not exceeding \$5,000, or *imprisonment* not exceeding *one year, or both*, in the discretion of the court. Such licenses shall continue in force until revoked.

Application for such licenses should be made to the collectors of internal revenue for the district in which they are engaged in business, and may be issued without cost to such persons as the commis-

sioner may approve, upon their filing with the collector the bond herein provided for.

All persons in making application to the collector of internal revenue for such licenses shall register their names and addresses and state the nature of the business in which they are engaged. Such application for the license, accompanied by a proper surety bond, when both have been approved by the collector, will be considered a sufficient compliance with the law to enable the persons making application to do business until February 1, 1914, without incurring the penalties provided by law for failure to procure the required license.

PENALTY FOR FALSE STATEMENTS.

If any person, for the purpose of obtaining any allowance or reduction by virtue of a claim for exemption, either for himself or for any other, knowingly makes a false statement or false or fraudulent representation, he is liable under the act to severe penalties.

PARTNERSHIPS.

Where coupons or interest orders, presented for payment, represent the interest on bonds, or other similar obligations, owned by a partnership, they shall be accompanied by a certificate of ownership, which shall be signed either in the firm's name by one member of the firm or by each individual member of the partnership, and the normal tax shall be withheld by the debtor with respect to the income represented by said interest.

Said certificate of ownership shall be in substantially the following form:

FORM OF CERTIFICATE TO BE FILLED OUT AND SIGNED BY MEMBERS OF PARTNERSHIPS.

The following certificate should be used when coupons or interest orders are presented by citizens or residents of the United States for collection of interest on bonds, or other similar obligations, owned by the partnerships of which they are members:

I,, a member of the firm or partnership of of and residing at..... do solemnly declare that
(Give full address.)

the said partnership is the owner of \$.....bonds of the denomination of \$..... each, Nos..... of the
(Give name of debtor.)

known as bonds, from which
(Describe the particular issue of bonds.)
were detached the accompanying interest coupons, due.....
..... 191., amounting to \$....., or upon which
there matured 191., \$..... of registered
interest, and that the name and address of said firm or partnership, and the names of the individual members thereof, and their places of residence, are as follows:

Names of partners:	Address:
.....
.....
.....
.....

Name of partner signing:.....

Of firm of:

Address:

Date.....191...

Any member of a partnership, who is entitled to a deduction (under Paragraph C, Section II, of the Income Tax Law) of his pro rata share of the tax which may be withheld at the source on interest on bonds owned by his copartnership, as above, may claim such deduction or allowance when he shall make his individual income tax return for the year in which said deduction at the source was made.

NON-RESIDENT FOREIGNERS OWNING INTEREST-BEARING BONDS NOT SUBJECT TO TAXATION ON INCOME FROM SUCH BONDS IF PROPER CERTIFICATE FURNISHED.

This tax will not be deducted from the income which may be derived from interest on bonds, mortgages, equipment trusts, receivers' certificates, or other similar obligations of which the bona fide owners are citizens of foreign countries residing in foreign countries: *Provided*, That such interest coupons, or in case of wholly registered bonds, the orders for the payment of such interest, shall be accomplished by duly certified certificates hereinafter provided for to cover the cases of foreign and non-resident owners of bonds and other securities.

Unless such proof of foreign ownership is duly furnished, the normal tax of 1 per cent. shall be deducted as herein provided.

Such certificate shall be in substantially the following form:

**FORM OF CERTIFICATE TO BE PRESENTED
WITH COUPONS OR INTEREST ORDERS,
DETACHED FROM BONDS OR OTHER OB-
LIGATIONS OWNED BY THOSE WHO ARE
BOTH CITIZENS OR SUBJECTS, AND RESI-
DENTS OF FOREIGN COUNTRIES.**

I do solemnly declare that I am not a citizen or resident of the United States of America, but a subject (or citizen) of , and that I am the owner of \$..... bonds of the denomination of \$.....each, Nos..... of theknown as
(Give name of debtor corporation.)

..... bonds,
(Describe the particular issue of bonds.)
from which were detached the accompanying coupons, due , 191... , amounting to \$..... , or upon which there matured , 191... , \$..... , of registered interest, and that being a nonresident foreigner, I am exempt from the income tax imposed on such interest by the United States Government under the law enacted October 3, 1913, and that no citizen of the United States, wherever residing, or foreigner residing in the United States, or any of its possessions, has any interest in said bonds, coupons, or interest.

Signature of owner of bonds.....
(Give full name.)

Date..... , 191...

Address.....
(Give full post office address.)

TEMPORARY PROVISION.

In view of the fact that the time required for the interpretation of the law and preparation and issuance of these regulations brings the date so near November 1, and that many coupons payable upon that date are hereby in transit without the prescribed certificates attached, with a desire to cause as small an amount of inconvenience as possible to bondholders and general business as may be compatible with the provisions of the law and of these regulations, the following temporary provision is made:

On November 1, 1913, and for 15 days thereafter, coupons presented to a debtor need not be accompanied by certificates in any of the forms hereinbefore described, provided that such coupons are accompanied by a certificate substantially in the following form:

**FORM OF TEMPORARY CERTIFICATES
WHICH MAY BE USED ONLY PRIOR TO
NOVEMBER 16, 1913, SUBJECT TO SUBSTITUTION*.**

I (or we) hereby certify that I am (or we are) lawfully entitled to present for payment the accompanying coupons or interest orders, amounting to \$....., representing interest matured on \$..... bonds of the denominations of \$..... each, Nos. of the known

(Give name of debtor corporation.)

as bonds;

(Describe the particular issue of bonds.)

that said coupons or interest orders came into
(My or our.)

possession unaccompanied by a certificate of ownership of said bonds, in any of the forms required by the regulations of the United States Treasury Department; and that the name and address of the owner of such bonds are as follows:.....

.....
(Give name and address of owner. If impossible to do this, so state.)

.....
(Name of person, firm, or corporation presenting coupons.)

By
(Official position.)

Address

Date....., 191....

On or before February 1, 1914, certificates of the ownership of any of the bonds upon which was col-

*The wording of this certificate is in accordance with the Treasury Department's latest ruling.

lected the interest referred to in such temporary certificates, in any of the forms above set forth, may be delivered to the debtor; and said debtor may thereupon return any sum withheld to which the owner of such bonds may be entitled under the law and regulations upon the facts disclosed by such ownership certificates. Any temporary certificates relating to bonds, for which certificates of ownership shall not have been substituted with the Debtor, shall, on or before March 1, 1914, be delivered to the collector of internal revenue.

All forms of certificates herein provided for shall be 8 inches wide and $3\frac{1}{2}$ inches from top to bottom, and printed on paper corresponding in weight and texture to glazed bond paper 17 by 28, about 26 pounds to the ream of 500 sheets, or white writing paper 21 by 32, about 32 pounds to the ream of 500 sheets, and the person or corporation first receiving coupons for collection shall write or stamp his or its name and address and date on the back of said certificates.

W. H. OSBORN,
Commissioner of Internal Revenue.

Approved, October 25, 1913.

W. G. McADOO,
Secretary of the Treasury.

REGULATIONS

(Part 2)

REGARDING THE DEDUCTION OF THE INCOME TAX AT THE SOURCE ON INCOME OTHER THAN INTEREST MATURING ON BONDS, NOTES, AND OTHER SIMILAR OBLIGATIONS OF CORPORATIONS, JOINT-STOCK COMPANIES OR ASSOCIATIONS, AND INSURANCE COMPANIES.

Under the Provisions of Section 2 of the Federal Income-Tax Law of October 3, 1913.

The "source" in these regulations shall be construed as referring to the place where the income originates.

BY WHOM THE NORMAL TAX SHALL BE DEDUCTED AND WITHHELD.

All persons, firms, etc., mentioned in paragraph E of this law, hereinafter referred to either as "Debtors" or "withholding agents," namely:

Copartnerships, companies, corporations, joint-stock companies, or associations, insurance companies, in whatever capacity acting, including lessees, mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers and all officers and employees of the United States having the control, receipt, custody, disposal, or payment of interest (except income derived from interest upon bonds and mortgages or deeds of trust, or other similar obligations of

corporations upon which the normal tax of 1 per cent has otherwise been withheld at the source, as provided by these regulations), rents, salaries, wages, royalties, taxable annuities, emoluments, or other fixed or determinable gains, profits, and income of another person, exceeding \$3,000 for any taxable year, except as hereinafter provided,

shall deduct and withhold from such annual gains, profits, and income such sum as will be sufficient to pay the normal tax of 1 per cent imposed thereon by section 2 of this act, and shall make lawful return and pay the taxes so withheld to the collector of internal revenue for the district in which said withholding agent resides or has his, her, or its principal place of business.

The normal tax of 1 per cent shall be thus withheld from all income derived from fixed annual periodical rent of realty or personalty, interest (except as herein otherwise provided), salaries, royalties, taxable annuities, and other fixed annual periodical income exceeding \$3,000.

ITEMS UPON WHICH TAX IS NOT TO BE WITHHELD AT THE SOURCE.

(1) Dividends on capital stock, or from the net earnings of corporations and joint-stock companies or associations and insurance companies subject to like tax, when said withholding agents are required to make and render a return in behalf of another, as provided herein, to the collector of his, her, or its district. *

(2) Proceeds of life insurance policies paid upon the death of the person insured, or payments made by or credited to the insured, on life insurance, endowment, or annuity contracts, upon the return thereof to the insured at the maturity of the term mentioned in the contract, or upon the surrender of contract—all of which shall not be included as income under this law—but this shall not be construed to exempt said insurance companies from withholding and paying the normal tax of 1 per cent on interest income paid by insurance companies to beneficiaries of policies when said interest exceeds \$3,000.

(3) Income of an individual which is *not* fixed or certain, and payable at stated periods, or is indefinite or irregular as to amount or time of accrual, shall not be withheld at the source, but shall be returned, and the tax shall be paid thereon by the individual.

Income derived from the following professions and vocations come under this head: Farmers, merchants, agents compensated on the commission basis, lawyers, doctors, authors, inventors, and other professional persons.

Such persons shall make personal return of all their income, provided their total income from all sources exceeds \$3,000. For example: When a lawyer receives a retainer of \$5,000 as a special fee, a deduction therefrom shall not be made by the payer, but when a lawyer receives a retainer of \$5,000 per annum, and the exemption claimed is \$3,000, \$2,000 of such income would be taxed and the tax retained at the source, or if his exemption claimed should be \$4,000, \$1,000 of such income would be taxed and the tax thereon withheld at the source.

(4) The value of property acquired by gift, bequest, devise, or descent.

(5) Interest upon the obligations of a State or any political subdivision thereof; and upon the obligations of the United States or its possessions; also the compensation of the present President of the United States during the term for which he has been elected, and of the judges of the Supreme and inferior courts of the United States now in office, and the compensation of all officers and employees of a State or any political subdivision thereof paid by a State or any political subdivision thereof, except when such compensation is paid by the United States Government.

This exempts from the income tax all salaries paid to an individual by a State or any political subdivision thereof, including the salaries of State, county, and municipal officers, the salaries of public-school teachers, and special compensation paid by States or subdivisions thereof for professional services, whether in the shape of salaries or special fees.

NORMAL TAX ON THE SAME INCOME IS TO BE WITHHELD BUT ONCE.

The normal tax of 1 per cent shall be deducted and withheld *at the source*, and payment made to the Collector of Internal Revenue as provided in the law, by the Debtor or his, her, or its duly appointed agent authorized to make such deduction and payment.

No other person, firm, or organization, in whatever capacity acting, having the receipt, custody, or

T R E A S U R Y D E C I S I O N S

disposal of any income, as herein provided, shall be required to again deduct and withhold the normal tax of 1 per cent thereon: *Provided*, That any person, firm, or organization in whatever capacity acting, other than the Debtor who has withheld said tax, shall file with the Collector of Internal Revenue for his, her, or its district, a certificate in substantially the following form:

Form of Certificate to be filed by persons, firms, or organizations required to withhold and pay said tax other than the Debtor at the source.

To:, Collector of Internal Revenue,
(Name of collector of internal revenue.)

.....
(Give address and designate district.)

I,
(Name.) (Official title, if any.)
of the
(Person, firm or organization.) (Capacity in which acting.)
of do solemnly declare that I (we)
(Post-office address.)
received of \$....., same being
(Name from whom received.)
income derived from
(State source, whether rents, salary, or other sources.)
belonging to
(Give name of person to whom income is due.)
..... and that the tax thereon amounting
(Address.)
to \$....., to which said person is subject, has been
withheld at the source of said income by

.....
(Name of person withholding.) (Post-office address.)

(Signed)

Address

(Street and number.)

(City and State.)

Date:, 191....

EXEMPTIONS WHICH MAY BE CLAIMED BY INDIVIDUALS.

Any person subject to the normal tax of 1 per cent, the amount of which is withheld or is to be withheld at the source, wishing to avail himself or herself of the exemption provided in paragraph C, section 2, of this act (\$3,000 or \$4,000, as the case may be) must file with the withholding agent, not later than 30 days prior to the day on which the return on his income is due, a notice in the following form:

Form for claiming exemption at the source as provided in paragraph C, section 2, of the Federal income-tax law of October 3, 1913.

To.....

(Give name of withholding agent.)

.....

(Post-office address.)

I hereby serve you with notice that I.....
am single—married and living with my wife—husband, and now
(Strike out so as to show status correctly.)

claim the benefit of the exemption of \$....., as allowed in paragraphs C and D of section 2 of the Federal income-tax law of October 3, 1913 (my total exemption under said paragraphs being \$.....).

Signed:

.....
Address:

.....
(Street and number.)

Date: 191...

(City and State.)

BY WHOM EXEMPTIONS UNDER PARAGRAPH C, SECTION 2, OF THIS ACT,
MAY BE CLAIMED.

Every single person, or every married person not living with wife or husband, who is liable for the normal income tax under this law may claim a total deduction of \$3,000 from net income, on which de-

duction he or she is exempt from said normal tax of 1 per cent.

Where a husband and wife live together and only one of them has an annual income liable for the normal tax of 1 per cent, then the husband or wife who has the income shall make the return and pay the said tax and may claim and deduct an exemption of \$4,000.

But if a husband and wife live together and each has an annual income liable for the normal tax of 1 per cent, then in that event they shall make a separate return, and the \$4,000 exemption allowed to a husband and a wife when living together may be claimed and deducted by either the husband or wife, as they may mutually agree (but not by both separately), or the said exemption shall be *pro-rated* between them in proportion to their net income.

**AMOUNT OF EXEMPTION ALLOWABLE FOR
1913 UNDER PARAGRAPH C, SECTION 2,
OF THE FEDERAL INCOME-TAX LAW.**

For the present year of 1913 (from March 1 to December 31) exemptions allowed under paragraph C of this law will be five-sixths of those of the calendar year, as specified in paragraph D, namely, \$2,500 if the exemption is \$3,000, or \$3,333.33 if the exemption is \$4,000, as the case may be.

**WHEN AND ON WHAT AMOUNT THE NOR-
MAL TAX OF 1 PER CENT SHALL BE
WITHHELD.**

A withholding agent who pays monthly or periodically during the year interest (except income de-

rived from interest upon bonds and mortgages, or deeds of trust, or other similar obligations of corporations, etc., upon which the normal tax of 1 per cent has been withheld at the source, as provided by regulations), rents, salaries, wages, etc., shall not withhold the said tax until such time as the rents, salaries, wages, etc., shall have reached an aggregate amount in excess of \$3,000. When such amount has been reached he, she, or it shall withhold the tax on the whole \$3,000 and excess thereof, *unless* the person to whom the income is due files with him, her, or it the notice above provided, claiming exemption under paragraph C of section 2 of this act, in which case the withholding agent shall withhold only the tax on the income in excess of said exemption of \$3,000 or \$4,000 (as the case may be), and the tax so withheld shall be returned and paid as required by law.

DEDUCTIONS TO BE MADE IN COMPUTING NET INCOME.

Any person subject to the normal income tax of 1 per cent, a part of whose income is withheld or is to be withheld at the source, who may wish to avail himself of the deductions authorized in subsection B, section 2, of this act, may file either with the Collector of Internal Revenue for the district in which return is made for him, or with the withholding agent, not later than 30 days prior to March 1, a return and notice in substantially the following form:

Form No.

UNITED STATES INTERNAL REVENUE

Return making application for deductions, as provided by paragraphs B and E, section 2 of the Federal income-tax law of October 3, 1913.

To.....
(Name of withholding agent.)

.....
(Street and number.)

.....
(Town or city.) (State.)

I hereby solemnly declare that the following is a true and correct return of my gains, profits, and income from all other sources for the calendar year ended December 31, 191... (from March 1 to December 31 for the year 1913), and a true and correct return of deductions asked for under paragraph B of section 2 of the act of October 3, 1913, and I hereby claim deductions as shown below.

Amount of gains, profits, interest, rents,
royalties, profits from co-partnerships,
and income from all other sources what-
soever \$.....

Deductions.

1. The amount of necessary expenses actually paid in carrying on business, except business expenses of partnerships, and not including personal, living, or family expenses \$.....
2. All interest paid within the year on personal indebtedness of taxpayer..... \$.....
3. All national, State, county, school, and municipal taxes paid within the year (not including those assessed against local benefits) \$.....
4. Losses actually sustained during the year incurred in trade or arising from fires, storms, or shipwreck and not compensated for by insurance or otherwise \$.....
5. Debts due, which have been actually ascertained to be worthless and charged off within the year..... \$.....
6. Amount representing a reasonable allowance for the exhaustion, wear, and tear of property arising out of its use or employment in the business, not to exceed in the case of mines 5 per cent. of the gross value of the output

- for the year for which the computation is made, but not including the expense of restoring property or making good the exhaustion thereof, for which an allowance is or has been made..... \$.....
7. The amount received as dividends upon the stock or from the net earnings of any corporation, joint-stock company, association, or insurance company which is taxable upon its net income... \$.....
8. The amount of income, the tax upon which has been paid or withheld for payment at the source of income..... \$.....
- \$.....
- Total deductions \$.....
- Date....., 191....
- (Signed)
- Address
-

NOTE.—Money or other things of value, disposed of by gift, donation, or endowment, shall not be deducted or be made the basis for a deduction from the income of persons or corporations in their tax returns under the income-tax law.

Money or other things of value, disposed of by gift, donation, or endowment, shall not be deducted or be made the basis for a deduction from the income of persons or corporations in their tax returns under the income-tax law.

AMOUNT OF DEDUCTION ALLOWABLE FOR 1913 ACCORDING TO PARAGRAPHS B AND D OF SECTION 2 OF THIS ACT.

For the present year of 1913 (from March 1 to December 31) the deductions allowed under paragraph B shall be five-sixths of the deductions allowable for a calendar year, as specified in paragraph D of this law.

AMOUNT OF TAX TO BE WITHHELD FOR 1913, AND WHEN WITHHELD.

The withholding agent is not required to deduct and withhold prior to November 1, 1913, the normal tax of 1 per cent for which an individual is liable.

Whenever the total amount of income paid to any person by a withholding agent *after* October 31, 1913, shall be in excess of \$3,000, then, in that event, the withholding agent shall be liable for and shall deduct and withhold the tax on such amount, unless such person shall file a claim for an exemption as allowed in paragraph D of this act, the amount of exemption allowable being \$2,500 if the annual exemption is \$3,000, or \$3,333.33 if the annual exemption is \$4,000, as the case may be.

PERSONS PHYSICALLY UNABLE TO MAKE RETURNS.

If a person subject to said tax part of whose income is withheld or is to be withheld, is a minor or insane person, or is absent from the United States, or unable to make the application or return because of serious illness, the application or return may be made by the withholding agent, who shall make the following oath under the penalties of this act:

Form of oath required of a withholding agent when acting for another in filing return and making application for deductions allowable under paragraph B, as provided in paragraph E, section 2, of the Federal income-tax law of October 3, 1913.

I hereby swear (or affirm) that I have sufficient knowledge of the affairs and property of.....
(Naming person and address for whom acting.)

T R E A S U R Y D E C I S I O N S

to enable me to make a full and complete return for
....., and that the return of income and application
Naming person.)
for deductions made by me are true and accurate.

Signed.....

Address.....
(Street and number.)

.....
(City and State.)

Date:, 191...

Signed and sworn to before....., 191...

.....

PENALTIES.

Subsection F of section 2 of the income-tax law
provides inter alia as follows:

*Any person or any officer of any corporation re-
quired by law to make, render, sign, or verify any
return who makes any false or fraudulent return
or statement with intent to defeat or evade the as-
sessment required to be made shall be guilty of a
misdemeanor and shall be fined not exceeding \$2,000
or be imprisoned not exceeding one year, or both,
in the discretion of the court, with the costs of
prosecution.*

W. H. OSBORN,

Commissioner of Internal Revenue.

Approved October 31, 1913.

W. G. McADOO,

Secretary of the Treasury.

TREASURY DECISION No. 1891

Income tax on notes given for interest, rents, etc.

How tax shall be collected when such notes, before their maturity, shall have been sold by the payee or recipient, or shall have been discounted with banks.

Treasury Department,
Office of Commissioner of Internal Revenue,
Washington, D. C., November 3, 1913.

To collectors of internal revenue:

When a note shall have been given in payment of interest, rents, or other income accruing after March 1, 1913, and said note matures on or after November 1, 1913, the maker of the note, as the "debtor" and as the "source" where the income originates, is required, in paying such note, to withhold the normal tax of 1 per cent on the entire amount of the note, if said note is in excess of \$3,000, unless a claim shall be made for exemption of \$3,000 or \$4,000 (as the case may be) under the provisions of paragraph C, section 2 of the act; and if such claim for exemption shall be made (as provided for on Form 1007), then the said tax shall be withheld only on the amount of said note in excess of the exemption claimed in said certificate.

If any person who has purchased or discounted any of said notes may have omitted, in acquiring them from previous holder, to make a deduction or allowance for said tax, such purchaser can only look

for relief to the person from whom he shall have gotten the notes, and the "debtor," the maker of said notes, will be held liable for and be required to deduct, withhold, and pay to the collector of internal revenue the amount of the normal tax of 1 per cent which may be due thereon under the law and these regulations.

To illustrate:

A (unmarried, and who does not claim the \$3,000 exemption provided in paragraph C of section 2 of the income-tax law) borrows on May 1, 1912, \$120,000 from B at 6 per cent per annum interest on two years' time and gives B his bond for \$120,000 for the principal and four \$3,600 notes, each representing six months' interest, for the maturing interest, payable May 1 and November 1 each year. On October 1, 1913, B takes A's interest note for \$3,600, due November 1, 1913 (which bears no mark to indicate that it represents interest), to the Richmond National Bank; the bank is not informed that the note represents interest, but being satisfied that A, the maker of the note, is good without additional indorsement, discounts the note for B at the rate of 6 per cent per annum and pays to B the proceeds—\$3,582.

On November 1, 1913, the note matures and the bank calls on A, the maker, to pay the note. A offers the bank \$3,564, which is equal to \$3,600 less the 1 per cent tax of \$36, informing the bank that the note represents interest which he owes and that, under the Federal income-tax law, he is required to deduct this tax from the face of the note in making payment.

The bank claims that it was not informed that the note represented interest and, therefore, subject to this tax; but A is, nevertheless, required under the law to withhold the tax.

If A, under his contract with B, had agreed to pay the interest without deduction for any income tax which might be imposed by the Government, he would, of course, after deducting the 1 per cent tax for the Government, pay the bank, as holder of the note, the full amount of \$3,600. But if the contract between A and B did not provide that A would pay the full interest without deducting such income tax as the Government might impose, and if the bank should, therefore, desire to reimburse itself for the amount of the tax thus deducted by A, the bank can look only to B, for whom it discounted the note, and the question as to whether this \$36 deduction should be borne by B or by the bank is a question which must be settled mutually between the bank and B.

W. H. OSBORN,
Commissioner of Internal Revenue.

TREASURY DECISION No. 1892

Interest upon obligation of the United States or its possessions, or of any State, county, city or any other political subdivision thereof, is not subject to income tax.

TREASURY DEPARTMENT,

**Office of Commissioner of Internal Revenue,
Washington, D. C., November 6, 1913.**

To Collectors of Internal Revenue:

It has been called to the attention of this office that banks in certain sections are refusing to pay coupons for interest on bonds of States, counties, cities, or other political subdivisions of the United States, when such coupons are not accompanied by certificates of ownership, without deducting the normal income tax of one per cent, which the law and the regulations of this Department require shall be deducted at the source in paying the interest on bonds of corporations, joint-stock companies, or associations and insurance companies.

Please inform all parties interested, giving the information wide publicity, that the income derived from the interest upon the obligations of a State, county, city, or any other political subdivision thereof, and upon the obligations of the United States or its possessions, **IS NOT SUBJECT TO THE INCOME TAX**, and a certificate of ownership in connection with the coupons or registered interest orders for such interest will not be required.

The interest coupons should clearly show on their face whether they are issued by the United States or any political subdivision thereof. If, however, they do not clearly show this, then, of course, an ownership certificate should be required.

Respectfully,

W. H. OSBORN,

Commissioner.

TREASURY DECISION No. 1893

Income tax on the interest on bank deposits and bank certificates of deposit not to be withheld at the source.

TREASURY DEPARTMENT,

**Office of Commissioner of Internal Revenue,
Washington, D. C., November 6, 1913.**

TO COLLECTORS OF INTERNAL REVENUE:

Banks, Bankers, Trust Companies, and other banking institutions receiving deposits of money, are **NOT REQUIRED** under the Treasury Regulations (part 2), approved October 31, 1913, to withhold at the source the normal income tax of one per cent on the interest paid, or accrued or accruing to depositors, whether on open accounts or on Certificates of Deposit; but all such interest, whether paid, or accrued and not paid, must be included in his tax return by the person or persons entitled to receive such interest, whether on open account or on the Certificate of Deposit.

W. H. OSBORN,
Commissioner of Internal Revenue.

Approved:

W. G. McADOO,
Secretary of the Treasury.

TREASURY DECISION No. 1894

To Collectors of Internal Revenue:

Coupons (or orders for registered interest) payable in the United States, representing the interest on bonds owned by non-resident aliens, must be accompanied by the prescribed Certificate Form 1,004. as per Treasury regulations of October 25, 1913.

* * * but this certificate may be signed either by the owner himself (herself, or themselves), or in behalf of the owner by a reputable bank or bankers, or other responsible collecting agency, certifying to the ownership of the bonds and giving the name and address of the bona fide non-resident and alien owners, and when such certificate is thus attached the normal tax of 1 per cent on such coupons or interest orders need not be withheld at the source by the debtotr or collecting agency.

W. H. OSBORN,

Commissioner of Internal Revenue.

Approved:

WM. G. McADOO.

November 12, 1913.

